

ROYAL BANK OF CANADA
 Form 424B2
 March 27, 2017

Filed Pursuant to Rule 424(b)(2)

Registration Statement No. 333-208507

Pricing Supplement SPBELN 224-C to the Prospectus dated January 8, 2016, the Series G Prospectus Supplement dated January 8, 2016, and the Product Prospectus Supplement PB-1 dated January 14, 2016

Royal Bank of Canada

\$3,330,000

Leveraged Buffered S&P 500[®] Index-Linked Notes, due March 22, 2019

The notes will not bear interest. The amount that you will be paid on your notes on the stated maturity date (March 22, 2019, subject to adjustment) is based on the performance of the S&P 500[®] Index (which we refer to as the “underlier”) as measured from the trade date (March 23, 2017) to and including the determination date (March 19, 2019, subject to adjustment). If the final underlier level on the determination date is greater than the initial underlier level (2,345.96, which was the closing level of the underlier on the trade date), the return on your notes will be positive, subject to the maximum settlement amount (\$1,231.00 for each \$1,000 principal amount of the notes). If the final underlier level is less than the buffer level, the return on your notes will be negative. You could lose your entire investment in the notes. To determine your payment at maturity, we will calculate the underlier return, which is the percentage increase or decrease in the final underlier level from the initial underlier level. On the stated maturity date, for each \$1,000 principal amount of your notes, you will receive an amount in cash equal to:

if the underlier return is positive (the final underlier level is greater than the initial underlier level), the sum of (i) \$1,000 plus (ii) the product of (a) \$1,000 times (b) the upside participation rate of 150% times (c) the underlier return, subject to the maximum settlement amount; or

if the underlier return is zero or negative but not below -5.00% (the final underlier level is equal to or less than the initial underlier level but not by more than 5.00%), \$1,000; or

if the underlier return is negative and is below -5.00% (the final underlier level is less than the initial underlier level by more than 5.00%), the sum of (i) \$1,000 plus (ii) the product of (a) 100/95.00 (which is approximately 1.0526) times (b) the sum of the underlier return plus 5.00% times (c) \$1,000. This amount will be less than \$1,000.

Our initial estimated value of the notes as of the date of this pricing supplement is \$979.60 per \$1,000 in principal amount, which is less than the original issue price. The actual value of the notes at any time will reflect many factors, cannot be predicted with accuracy, and may be less than this amount. We describe our determination of the initial estimated value in more detail below.

Your investment in the notes involves certain risks, including, among other things, our credit risk. See the section “Additional Risk Factors Specific to Your Notes” beginning on page PS-7 of this pricing supplement.

Non-U.S. holders will not be subject to withholding on dividend equivalent payments under Section 871(m) of the U.S. Internal Revenue Code. Please see the section below, “Supplemental Discussion of U.S. Federal Income Tax Consequences,” which applies to the notes.

The foregoing is only a brief summary of the terms of your notes. You should read the additional disclosure provided in this pricing supplement so that you may better understand the terms and risks of your investment.

Original issue date:	March 30, 2017	Original issue price:	100.00% of the principal amount*
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Underwriting discount:	1.47% of the principal amount	Net proceeds to the issuer:	98.53% of the principal amount
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* The original issue price will be 98.53% of the principal amount for certain investors, reflecting a foregone underwriting discount with respect to such notes; see “Supplemental Plan of Distribution (Conflicts of Interest)” on page PS-18 of this pricing supplement.

The issue price, underwriting discount and net proceeds listed above relate to the notes we sell initially. We may decide to sell additional notes after the date of this pricing supplement, at issue prices and with underwriting discounts and net proceeds that differ from the amounts set forth above. The return (whether positive or negative) on your

investment in the notes will depend in part on the issue price you pay for such notes.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this pricing supplement, the accompanying product prospectus supplement, the accompanying prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense. The notes will not constitute deposits that are insured by the Canada Deposit Insurance Corporation, the U.S. Federal Deposit Insurance Corporation or any other Canadian or U.S. governmental agency or instrumentality.

RBC Capital Markets, LLC

Pricing Supplement dated March 23, 2017.

SUMMARY INFORMATION

We refer to the notes we are offering by this pricing supplement as the “offered notes” or the “notes.” Each of the offered notes, including your notes, has the terms described below. Please note that in this pricing supplement, references to “Royal Bank of Canada,” “we,” “our” and “us” mean only Royal Bank of Canada and all references to “\$” or “dollar” are to United States dollars. Also, references to the “accompanying prospectus” mean the accompanying prospectus, dated January 8, 2016, as supplemented by the accompanying prospectus supplement, dated January 8, 2016, of Royal Bank of Canada relating to the Senior Medium-Term Notes, Series G program of Royal Bank of Canada and references to the “accompanying product prospectus supplement PB-1” mean the accompanying product prospectus supplement PB-1, dated January 14, 2016, of Royal Bank of Canada.

This section is meant as a summary and should be read in conjunction with the section entitled “General Terms of the Notes” beginning on page PS-4 of the accompanying product prospectus supplement PB-1. Please note that certain features described in the accompanying product prospectus supplement PB-1 are not applicable to the notes. This pricing supplement supersedes any conflicting provisions of the accompanying product prospectus supplement PB-1.

Key Terms

Issuer: Royal Bank of Canada

Underlier: the S&P 500[®] Index (Bloomberg symbol, “SPX Index”), as published by S&P Dow Jones Indices, LLC (“S&P,” or the “underlier sponsor”)

Specified currency: U.S. dollars (“\$”)

Denominations: \$1,000 and integral multiples of \$1,000 in excess of \$1,000. The notes may only be transferred in amounts of \$1,000 and increments of \$1,000 thereafter

Principal amount: each note will have a principal amount of \$1,000; \$3,330,000 in the aggregate for all the offered notes; the aggregate principal amount of the offered notes may be increased if the issuer, at its sole option, decides to sell an additional amount of the offered notes on a date subsequent to the date of this pricing supplement

Purchase at amount other than principal amount: the amount we will pay you at the stated maturity date for your notes will not be adjusted based on the issue price you pay for your notes, so if you acquire notes at a premium (or discount) to principal amount and hold them to the stated maturity date, it could affect your investment in a number of ways.

The return on your investment in such notes will be lower (or higher) than it would have been had you purchased the notes at a price equal to the principal amount. Also, the buffer level would not offer the same measure of protection to your investment as would be the case if you had purchased the notes at the principal amount. Additionally, the cap level would be triggered at a lower (or higher) percentage return than indicated below, relative to your initial investment. See “If the Original Issue Price for Your Notes Represents a Premium to the Principal Amount, the Return on Your Notes Will Be Lower Than the Return on Notes for Which the Original Issue Price Is Equal to the Principal Amount or Represents a Discount to the Principal Amount” on page PS-11 of this pricing supplement

Cash settlement amount (on the stated maturity date): for each \$1,000 principal amount of your notes, we will pay you on the stated maturity date an amount in cash equal to:

- if the final underlier level is greater than or equal to the cap level, the maximum settlement amount;
- if the final underlier level is greater than the initial underlier level but less than the cap level, the sum of (1) \$1,000 plus (2) the product of (i) \$1,000 times (ii) the upside participation rate times (iii) the underlier return;
- if the final underlier level is equal to or less than the initial underlier level but greater than or equal to the buffer level, \$1,000; or
- if the final underlier level is less than the buffer level, the sum of (1) \$1,000 plus (2) the product of (i) the buffer rate times (ii) the sum of the underlier return plus the buffer amount times (iii) \$1,000. In this case, the cash settlement amount will be less than the principal amount of the notes, and you will lose some or all of the principal amount.

Initial underlier level: 2,345.96, which was the closing level of the underlier on the trade date

Final underlier level: the closing level of the underlier on the determination date, except in the limited circumstances described under “General Terms of the Notes — Determination Dates and Averaging Dates” on page PS-5 of the accompanying product prospectus supplement PB-1 and subject to adjustment as provided under “General Terms of the Notes — Unavailability of the Level of the Underlier” on page PS-6 of the accompanying product prospectus supplement PB-1.

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Underlier return: the quotient of (1) the final underlier level minus the initial underlier level divided by (2) the initial underlier level, expressed as a percentage

Upside participation rate: 150%

Cap level: 115.40% of the initial underlier level

Maximum settlement amount: \$1,231.00 for each \$1,000 principal amount of the notes

Buffer level: 95.00% of the initial underlier level (equal to an underlier return of -5.00%)

Buffer amount: 5.00%

Buffer rate: the quotient of the initial underlier level divided by the buffer level, which equals approximately 105.26%

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Trade date: March 23, 2017

Original issue date (settlement date): March 30, 2017

Determination date: March 19, 2019, subject to adjustment as described under “General Terms of the Notes —

Determination Dates and Averaging Dates” on page PS-5 of the accompanying product prospectus supplement PB-1

Stated maturity date: March 22, 2019, subject to adjustment as described under “General Terms of the Notes — Stated

Maturity Date” on page PS-5 of the accompanying product prospectus supplement PB-1

No interest: the offered notes will not bear interest

No listing: the offered notes will not be listed on any securities exchange or interdealer quotation system

No redemption: the notes are not subject to redemption prior to maturity

Closing level: the official closing level of the underlier or any successor underlier published by the underlier sponsor

on such trading day for such underlier

Business day: as described under “General Terms of the Notes — Special Calculation Provisions — Business Day” on page

PS-11 of the accompanying product prospectus supplement PB-1

Trading day: as described under “General Terms of the Notes — Special Calculation Provisions — Trading Day” on page

PS-11 of the accompanying product prospectus supplement PB-1

Use of proceeds and hedging: as described under “Use of Proceeds and Hedging” on page PS-13 of the accompanying

product prospectus supplement PB-1

ERISA: as described under “Employee Retirement Income Security Act” on page PS-20 of the accompanying product

prospectus supplement PB-1

Calculation agent: RBC Capital Markets, LLC (“RBCCM”)

Dealer: RBCCM

U.S. tax treatment: by purchasing a note, each holder agrees (in the absence of a change in law, an administrative determination or a judicial ruling to the contrary) to treat the note as a pre-paid cash-settled derivative contract for U.S. federal income tax purposes. However, the U.S. federal income tax consequences of your investment in the notes are uncertain and the Internal Revenue Service could assert that the notes should be taxed in a manner that is different from that described in the preceding sentence. Please see the discussion in the accompanying prospectus under “Tax Consequences,” the discussion in the accompanying prospectus supplement under “Certain Income Tax Consequences,” and the discussion (including the opinion of our counsel Morrison & Foerster LLP) in the accompanying product prospectus supplement PB-1 under “Supplemental Discussion of U.S. Federal Income Tax Consequences,” and the discussion below under “Supplemental Discussion of U.S. Federal Income Tax Consequences,” which apply to the notes.

Canadian tax treatment: for a discussion of certain Canadian federal income tax consequences of investing in the notes, please see the section entitled “Tax Consequences — Canadian Taxation” in the accompanying prospectus

CUSIP no.: 78012KF36

ISIN no.: US78012KF364

FDIC: the notes will not constitute deposits that are insured by the Federal Deposit Insurance Corporation, the Canada Deposit Insurance Corporation or any other Canadian or U.S. governmental agency

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HYPOTHETICAL EXAMPLES

The following table and chart are provided for purposes of illustration only. They should not be taken as an indication or prediction of future investment results and are intended merely to illustrate the impact that various hypothetical final underlier levels on the determination date could have on the cash settlement amount at maturity, assuming all other variables remain constant.

The examples below are based on a range of final underlier levels that are entirely hypothetical. No one can predict what the underlier level will be on any day during the term of your notes, and no one can predict what the final underlier level will be. The underlier has been highly volatile in the past—meaning that the underlier level has changed considerably in relatively short periods—and its performance cannot be predicted for any future period.

The information in the following examples reflects hypothetical rates of return on the notes assuming that they are purchased on the original issue date with a \$1,000 principal amount and are held to maturity. If you sell your notes in any secondary market prior to maturity, your return will depend upon the market value of your notes at the time of sale, which may be affected by a number of factors that are not reflected in the table below, such as interest rates and the volatility of the underlier. In addition, assuming no changes in market conditions or our creditworthiness and any other relevant factors, the value of your notes on the trade date (as determined by reference to pricing models used by RBCCM and taking into account our credit spreads) is, and the price you may receive for your notes may be, significantly less than the principal amount. For more information on the value of your notes in the secondary market, see “Additional Risk Factors Specific to Your Notes — The Price, if any, at Which You May Be Able to Sell Your Notes Prior to Maturity May Be Less than the Original Issue Price and Our Initial Estimated Value” below. The information in the table also reflects the key terms and assumptions in the box below.

Key Terms and Assumptions

Principal amount	\$1,000
Upside participation rate	150%
Cap level	115.40% of the initial underlier level
Maximum settlement amount	\$1,231.00
Buffer level	95.00% of the initial underlier level
Buffer rate	, which equals approximately 105.26%
Buffer amount	5.00%

Neither a market disruption event nor a non-trading day occurs on the originally scheduled determination date

No change affecting the method by which the underlier sponsor calculates the underlier

Notes purchased on original issue date at a price equal to the principal amount and held to the stated maturity date

The actual performance of the underlier over the term of your notes, as well as the amount payable at maturity, if any, may bear little relation to the hypothetical examples shown below or to the historical underlier levels shown elsewhere in this pricing supplement. For information about the historical levels of the underlier during recent periods, see “The Underlier—Historical Performance of the Underlier” below. Before investing in the notes, you should consult publicly available information to determine the levels of the underlier between the date of this pricing supplement and the date of your purchase of the notes.

Also, the hypothetical examples shown below do not take into account the effects of applicable taxes. Because of the U.S. tax treatment applicable to your notes, tax liabilities could affect the after-tax rate of return on your notes to a comparatively greater extent than the after-tax return on the stocks included in the underlier (the “underlier stocks”). The levels in the left column of the table below represent hypothetical final underlier levels and are expressed as percentages of the initial underlier level. The amounts in the right column represent the hypothetical cash settlement amounts, based on the corresponding hypothetical final underlier level (expressed as a percentage of the initial underlier level), and are expressed as percentages of the principal amount of a note (rounded to the nearest one-thousandth of a percent). Thus, a hypothetical cash settlement amount of 100.000% means that the value of the

cash payment that we would deliver for each \$1,000 principal amount of the notes at maturity would equal the principal amount of a note, based on the corresponding hypothetical final underlier level (expressed as a percentage of the initial underlier level) and the assumptions noted above.

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Hypothetical Final Underlier Level (as a Percentage of the Initial Underlier Level)	Hypothetical Cash Settlement Amount (as a Percentage of the Principal Amount)
150.00%	123.100%
140.00%	123.100%
130.00%	123.100%
120.00%	123.100%
115.40%	123.100%
110.00%	115.000%
107.00%	110.500%
105.00%	107.500%
100.00%	100.000%
95.00%	100.000%
80.00%	84.211%
75.00%	78.947%
50.00%	52.632%
25.00%	26.316%
0.00%	0.000%

If, for example, the final underlier level were determined to be 25.00% of the initial underlier level, the cash settlement amount that we would deliver on your notes at maturity would be approximately 26.316% of the principal amount of your notes, as shown in the hypothetical cash settlement amount column of the table above. As a result, if you purchased your notes at the principal amount on the settlement date and held them to maturity, you would lose approximately 73.684% of your investment.

If the final underlier level were determined to be 150.00% of the initial underlier level, the cash settlement amount that we would deliver on your notes at maturity would be capped at the maximum settlement amount (expressed as a percentage of the principal amount), or 123.100% of the principal amount of your notes, as shown in the hypothetical cash settlement amount column of the table above. As a result, if you purchased your notes at the principal amount on the settlement date and held them to maturity, you would not benefit from any increase in the final underlier level over 115.40% of the initial underlier level.

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The following chart also illustrates the hypothetical cash settlement amounts (expressed as a percentage of the principal amount of your notes) that we would pay on your notes on the stated maturity date, if the final underlier level (expressed as a percentage of the initial underlier level) were any of the hypothetical levels shown on the horizontal axis. The chart shows that any hypothetical final underlier level (expressed as a percentage of the initial underlier level) of less than the buffer level would result in a hypothetical cash settlement amount of less than 100.00% of the principal amount of your notes (the section below the 100.00% marker on the vertical axis) and, accordingly, in a loss of principal to the holder of the notes. On the other hand, any hypothetical final underlier level that is greater than the initial underlier level (the section right of the 100.00% marker on the horizontal axis) would result in a hypothetical cash settlement amount that is greater than 100.00% of the principal amount of your notes on a leveraged basis (the section above the 100.00% marker on the vertical axis), subject to the maximum settlement amount.

n The Note Performance

n The Underlier Performance

No one can predict what the final underlier level will be. The actual amount that a holder of the notes will receive at maturity and the actual return on your investment in the notes, if any, will depend on the actual final underlier level, which will be determined by the calculation agent as described below. In addition, the actual return on your notes will further depend on the original issue price. Moreover, the assumptions on which the hypothetical table and chart are based may turn out to be inaccurate. Consequently, the return on your investment in the notes, if any, and the actual cash settlement amount to be paid in respect of the notes at maturity may be very different from the information reflected in the table and chart above.

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ADDITIONAL RISK FACTORS SPECIFIC TO YOUR NOTES

An investment in your notes is subject to the risks described below, as well as the risks described under “Risk Factors” beginning on page S-1 of the accompanying prospectus supplement and page 1 of the accompanying prospectus. You should carefully review these risks as well as the terms of the notes described herein and in the accompanying prospectus, dated January 8, 2016, as supplemented by the accompanying prospectus supplement, dated January 8, 2016, and the accompanying product prospectus supplement PB-1, dated January 14, 2016, of Royal Bank of Canada. Your notes are a riskier investment than ordinary debt securities. Also, your notes are not equivalent to investing directly in the underlier stocks, i.e., the stocks included in the underlier. You should carefully consider whether the offered notes are suited to your particular circumstances.

You May Lose Your Entire Investment in the Notes

The principal amount of your investment is not protected and you may lose a significant amount, or even all of your investment in the notes. The cash settlement amount, if any, will depend on the performance of the underlier and the change in the level of the underlier from the trade date to the determination date, and you may receive significantly less than the principal amount of the notes. Subject to our credit risk, you will receive at least the principal amount of the notes at maturity only if the final underlier level is greater than or equal to the buffer level. If the final underlier level is less than the buffer level, then you will lose, for each \$1,000 in principal amount of the notes, an amount equal to the product of (i) the buffer rate times (ii) the sum of underlier return plus the buffer amount (iii) times \$1,000. You could lose some or all of the principal amount. Thus, depending on the final underlier level, you could lose a substantial portion, and perhaps all, of your investment in the notes, which would include any premium to the principal amount you may have paid when you purchased the notes.

In addition, if the notes are not held until maturity, assuming no changes in market conditions or to our creditworthiness and other relevant factors, the price you may receive for the notes may be significantly less than the price that you paid for them.

Our Initial Estimated Value of the Notes Is Less than the Original Issue Price

Our initial estimated value that is set forth on the cover page of this document is less than the original issue price of the notes, and does not represent a minimum price at which we, RBCCM or any of our other affiliates would be willing to purchase the notes in any secondary market (if any exists) at any time. This is due to, among other things, the fact that the original issue price of the notes reflects the borrowing rate we pay to issue securities of this kind (an internal funding rate that is lower than the rate at which we borrow funds by issuing conventional fixed rate debt), and the inclusion in the original issue price of the underwriting discount and costs relating to our hedging of the notes.

The Price, if any, at Which You May Be Able to Sell Your Notes Prior to Maturity May Be Less than the Original Issue Price and Our Initial Estimated Value

Assuming no change in market conditions or any other relevant factors, the price, if any, at which you may be able to sell your notes prior to maturity may be less than the original issue price and our initial estimated value. This is because any such sale price would not be expected to include the underwriting discount or our estimated profit and the costs relating to our hedging of the notes. In addition, any price at which you may sell the notes is likely to reflect customary bid-ask spreads for similar trades, and the cost of unwinding any related hedge transactions. In addition, the value of the notes determined for any secondary market price is expected to be based in part on the yield that is reflected in the interest rate on our conventional debt securities of similar maturity that are traded in the secondary market, rather than the internal funding rate that we used to price the notes and determine the initial estimated value. As a result, the secondary market price of the notes will be less than if the internal funding rate was used. These factors, together with various credit, market and economic factors over the term of the notes, and, potentially, changes in the level of the underlier, are expected to reduce the price at which you may be able to sell the notes in any secondary market and will affect the value of the notes in complex and unpredictable ways.

As set forth below in the section “Supplemental Plan of Distribution (Conflicts of Interest),” for a limited period of time after the original issue date, your broker may repurchase the notes at a price that is greater than the estimated value of the notes at that time. However, assuming no changes in any other relevant factors, the price you may receive if you sell your notes is expected to decline gradually during that period.

The notes are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold

your notes to maturity.

The Initial Estimated Value of the Notes Is an Estimate Only, Calculated as of the Time the Terms of the Notes Were Set

Our initial estimated value of the notes is based on the value of our obligation to make the payments on the notes, together with the mid-market value of the derivative embedded in the terms of the notes. See “Structuring the Notes” below. Our estimate is based on a variety of assumptions, including our internal funding rate (which represents a discount from our credit spreads), expectations as to dividends on the underlier stocks, interest rates and volatility, and the expected term of the notes. These assumptions are based on certain forecasts about future events, which may prove to be incorrect. Other entities may value the notes or similar securities at a price that is significantly different than we do.

The value of the notes at any time after the trade date will vary based on many factors, including changes in market conditions, and cannot be predicted with accuracy. As a result, the actual value you would receive if you sold the notes in any secondary market, if any, should be expected to differ materially from our initial estimated value of your notes.

Your Notes Will Not Bear Interest

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You will not receive any interest payments on the notes. Even if the amount payable on the notes at maturity exceeds the principal amount of the notes, the overall return you earn on the notes may be less than you would otherwise have earned by investing in a non-indexed debt security of comparable maturity that bears interest at a prevailing market rate. Your investment may not reflect the full opportunity cost to you when you take into account factors that affect the time value of money.

The Potential for the Value of Your Notes to Increase Will Be Limited

Your ability to participate in any change in the level of the underlier over the term of your notes will be limited because of the cap level. The cap level will limit the amount in cash you may receive for each of your notes at maturity, no matter how much the level of the underlier may rise beyond the cap level over the term of your notes. Accordingly, the amount payable for each of your notes may be significantly less than your return had you invested directly in the underlier stocks.

Payment of the Amount Payable on Your Notes Is Subject to Our Credit Risk, and Market Perceptions About Our Creditworthiness May Adversely Affect the Market Value of Your Notes

The notes are our unsecured debt obligations. Investors are subject to our credit risk, and market perceptions about our creditworthiness may adversely affect the market value of the notes. Any decrease in the market's view on or confidence in our creditworthiness is likely to adversely affect the market value of the notes.

The Amount Payable on Your Notes Is Not Linked to the Level of the Underlier at Any Time Other than the Determination Date

The amount payable on your notes will be based on the final underlier level. Therefore, for example, if the closing level of the underlier decreased precipitously on the determination date, the amount payable at maturity may be significantly less than it would otherwise have been had the amount payable been linked to the closing level of the underlier prior to that decrease. Although the actual level of the underlier at maturity or at other times during the term of the notes may be higher than the final underlier level, you will not benefit from the closing level of the underlier at any time other than the determination date.

The Notes May Not Have an Active Trading Market

The notes will not be listed on any securities exchange. The dealer intends to offer to purchase the notes in the secondary market, but is not required to do so. The dealer or any of its affiliates may stop any market-making activities at any time. Even if there is a secondary market, it may not provide enough liquidity to allow you to easily trade or sell the notes. Because other dealers are not likely to make a secondary market for the notes, the price at which you may be able to trade the notes is likely to depend on the price, if any, at which the dealer is willing to buy the notes. We expect that transaction costs in any secondary market would be high. As a result, the difference between bid and asked prices for your notes in any secondary market could be substantial.

If you sell your notes before maturity, you may have to do so at a substantial discount from the price that you paid for them, and as a result, you may suffer substantial losses.

The Market Value of Your Notes May Be Influenced by Many Unpredictable Factors

The following factors, among others, many of which are beyond our control, may influence the market value of your notes:

- the level of the underlier;
- the volatility—i.e., the frequency and magnitude of changes—of the level of the underlier;
- the dividend rates of the underlier stocks;
- economic, financial, regulatory, political, military and other events that affect stock markets generally and the underlier stocks;
- interest and yield rates in the market;
- the time remaining until the notes mature; and
- our creditworthiness, whether actual or perceived, and including actual or anticipated upgrades or downgrades in our credit ratings or changes in other credit measures.

These factors may influence the market value of your notes if you sell your notes before maturity, including the price you may receive for your notes in any market making transaction. If you sell your notes prior to maturity, you may receive less than the principal amount of your notes.

If the Level or Price of the Underlier or the Underlier Stocks Changes, the Market Value of the Notes May Not Change in the Same Manner

The notes may trade quite differently from the performance of the underlier or the underlier stocks. Changes in the level or price, as applicable, of the underlier or the underlier stocks may not result in a comparable change in the market value of the notes. Some of the reasons for this disparity are discussed under “— The Market Value of Your Notes May Be Influenced by Many Unpredictable Factors” above.

The Return on the Notes Will Not Reflect Any Dividends Paid on the Underlier Stocks

The underlier sponsor calculates the levels of the underlier by reference to the prices of the underlier stocks without taking account of the value of dividends paid on those underlier stocks. Therefore, the return on the notes will not reflect the return you would realize if you actually owned the underlier stocks and received the dividends paid on those underlier stocks.

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You Have No Shareholder Rights or Rights to Receive Any Underlier Stock

Investing in your notes will not make you a holder of any of the underlier stocks. Neither you nor any other holder or owner of your notes will have any voting rights, any right to receive dividends or other distributions, any rights to make a claim against the underlier stock issuers or any other rights with respect to the underlier stocks. Your notes will be paid in cash to the extent any amount is payable at maturity, and you will have no right to receive delivery of any of the underlier stocks.

We Will Not Hold Any of the Underlier Stocks for Your Benefit, if We Hold Them at All

The indenture and the terms governing your notes do not contain any restriction on our ability or the ability of any of our affiliates to sell, pledge or otherwise convey all or any portion of the underlier stocks that we or they may acquire. Neither we nor our affiliates will pledge or otherwise hold any assets for your benefit, including any of these securities. Consequently, in the event of our bankruptcy, insolvency or liquidation, any of those securities that we own will be subject to the claims of our creditors generally and will not be available for your benefit specifically.

Our Hedging Activities and/or Those of Our Distributors May Negatively Impact Investors in the Notes and Cause Our Interests and Those of Our Clients and Counterparties to Be Contrary to Those of Investors in the Notes

The dealer or one or more of our other affiliates and/or distributors has hedged or expects to hedge its obligations under the hedging transaction that it may enter into with us by purchasing futures and/or other instruments linked to the underlier or the underlier stocks. The dealer or one or more of our other affiliates and/or distributors also expects to adjust the hedge by, among other things, purchasing or selling any of the foregoing, and perhaps other instruments linked to the underlier or one or more of the underlier stocks, at any time and from time to time, and to unwind the hedge by selling any of the foregoing on or before the determination date.

We, the dealer, or one or more of our other affiliates and/or distributors may also enter into, adjust and unwind hedging transactions relating to other basket- or index-linked notes whose returns are linked to changes in the level or price of the underlier or the underlier stocks. Any of these hedging activities may adversely affect the level of the underlier—directly or indirectly by affecting the price of the underlier stocks—and therefore the market value of the notes and the amount you will receive, if any, on the notes. In addition, you should expect that these transactions will cause us, the dealer or our other affiliates and/or distributors, or our clients or counterparties, to have economic interests and incentives that do not align with, and that may be directly contrary to, those of an investor in the notes. We, the dealer and our other affiliates and/or distributors will have no obligation to take, refrain from taking or cease taking any action with respect to these transactions based on the potential effect on an investor in the notes, and may receive substantial returns with respect to these hedging activities while the value of the notes may decline. Additionally, if the distributor from which you purchase notes is to conduct hedging activities for us in connection with the notes, that distributor may profit in connection with such hedging activities and such profit, if any, will be in addition to the compensation that the distributor receives for the sale of the notes to you. You should be aware that the potential to earn fees in connection with hedging activities may create a further incentive for the distributor to sell the notes to you in addition to the compensation they would receive for the sale of the notes.

Market Activities by Us and by the Dealer for Our Own Account or for Our Clients Could Negatively Impact Investors in the Notes

We, the dealer and our other affiliates provide a wide range of financial services to a substantial and diversified client base. As such, we each may act as an investor, investment banker, research provider, investment manager, investment advisor, market maker, trader, prime broker or lender. In those and other capacities, we, the dealer and/or our other affiliates purchase, sell or hold a broad array of investments, actively trade securities (including the notes or other securities that we have issued), the underlier stocks, derivatives, loans, credit default swaps, indices, baskets and other financial instruments and products for our own accounts or for the accounts of our customers, and we will have other direct or indirect interests, in those securities and in other markets that may be not be consistent with your interests and may adversely affect the level of the underlier and/or the value of the notes. Any of these financial market activities may, individually or in the aggregate, have an adverse effect on the level of the underlier and the market value of your notes, and you should expect that our interests and those of the dealer and/or our other affiliates, or our clients or counterparties, will at times be adverse to those of investors in the notes.

In addition to entering into these transactions itself, we, the dealer and our other affiliates may structure these transactions for our clients or counterparties, or otherwise advise or assist clients or counterparties in entering into these transactions. These activities may be undertaken to achieve a variety of objectives, including: permitting other

purchasers of the notes or other securities to hedge their investment in whole or in part; facilitating transactions for other clients or counterparties that may have business objectives or investment strategies that are inconsistent with or contrary to those of investors in the notes; hedging the exposure of us, the dealer or our other affiliates in connection with the notes, through their market-making activities, as a swap counterparty or otherwise; enabling us, the dealer or our other affiliates to comply with internal risk limits or otherwise manage firmwide, business unit or product risk; and/or enabling us, the dealer or our other affiliates to take directional views as to relevant markets on behalf of itself or our clients or counterparties that are inconsistent with or contrary to the views and objectives of investors in the notes.

We, the dealer and our other affiliates regularly offer a wide array of securities, financial instruments and other products into the marketplace, including existing or new products that are similar to the notes or other securities that we may issue, the underlier stocks or other securities or instruments similar to or linked to the foregoing. Investors in the notes should expect that we, the dealer and our other affiliates will offer securities, financial instruments, and other products that may compete with the notes for liquidity or otherwise.

We, the Dealer and Our Other Affiliates Regularly Provide Services to, or Otherwise Have Business Relationships with, a Broad Client Base, Which Has Included and May Include Us and the Issuers of the Underlier Stocks

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We, the dealer and our other affiliates regularly provide financial advisory, investment advisory and transactional services to a substantial and diversified client base. You should assume that we or they will, at present or in the future, provide such services or otherwise engage in transactions with, among others, us and the issuers of the underlier stocks, or transact in securities or instruments or with parties that are directly or indirectly related to these entities. These services could include making loans to or equity investments in those companies, providing financial advisory or other investment banking services, or issuing research reports. You should expect that we, the dealer and our other affiliates, in providing these services, engaging in such transactions, or acting for our own accounts, may take actions that have direct or indirect effects on the notes or other securities that we may issue, the underlier stocks or other securities or instruments similar to or linked to the foregoing, and that such actions could be adverse to the interests of investors in the notes. In addition, in connection with these activities, certain personnel within us, the dealer or our other affiliates may have access to confidential material non-public information about these parties that would not be disclosed to investors of the notes.

Past Underlier Performance Is No Guide to Future Performance

The actual performance of the underlier over the term of the notes may bear little relation to the historical levels of the underlier. Likewise, the amount payable at maturity may bear little relationship to the hypothetical return table or chart set forth elsewhere in this pricing supplement. We cannot predict the future performance of the underlier. Trading activities undertaken by market participants, including certain investors in the notes or their affiliates, including in short positions and derivative positions, may adversely affect the level of the underlier.

As the Calculation Agent, RBCCM Will Have the Authority to Make Determinations that Could Affect the Amount You Receive, if Any, at Maturity

As the calculation agent for the notes, RBCCM will have discretion in making various determinations that affect the notes, including determining the final underlier level, which will be used to determine the cash settlement amount at maturity, and determining whether to postpone the determination date because of a market disruption event or because that day is not a trading day. The calculation agent also has discretion in making certain adjustments relating to a discontinuation or modification of the underlier, as described under “General Terms of the Notes—Unavailability of the Level of the Underlier” beginning on page PS-6 of the accompanying product prospectus supplement PB-1. The exercise of this discretion by RBCCM, which is our wholly owned subsidiary, could adversely affect the value of the notes and may create a conflict of interest between you and RBCCM. For a description of market disruption events as well as the consequences of the market disruption events, see the section entitled “General Terms of the Notes—Market Disruption Events” beginning on page PS-7 of the accompanying product prospectus supplement PB-1. We may change the calculation agent at any time without notice, and RBCCM may resign as calculation agent at any time.

The Policies of the Underlier Sponsor and Changes that Affect the Underlier or the Underlier Stocks Could Affect the Amount Payable on the Notes, if Any, and Their Market Value

The policies of the underlier sponsor concerning the calculation of the levels of the underlier, additions, deletions or substitutions of the underlier stocks and the manner in which changes affecting such underlier stocks or their issuers, such as stock dividends, reorganizations or mergers, are reflected in the level of the underlier, could affect the levels of the underlier and, therefore, the amount payable on the notes, if any, at maturity and the market value of the notes prior to maturity. The amount payable on the notes, if any, and their market value could also be affected if the underlier sponsor changes these policies, for example, by changing the manner in which it calculates the level of the underlier, or if the underlier sponsor discontinues or suspends calculation or publication of the level of the underlier, in which case it may become difficult to determine the market value of the notes. If events such as these occur, the calculation agent will determine the amount payable, if any, at maturity as described herein.

The Calculation Agent Can Postpone the Determination of the Final Underlier Level if a Market Disruption Event Occurs or Is Continuing

The determination of the final underlier level may be postponed if the calculation agent determines that a market disruption event has occurred or is continuing on the determination date with respect to the underlier. If such a postponement occurs, the calculation agent will use the closing level of the underlier on the first subsequent trading day on which no market disruption event occurs or is continuing, subject to the limitations set forth in the accompanying product prospectus supplement PB-1. If a market disruption event occurs or is continuing on a determination date, the stated maturity date for the notes could also be postponed.

If the determination of the level of the underlier for any determination date is postponed to the last possible day, but a market disruption event occurs or is continuing on that day, that day will nevertheless be the date on which the level of the underlier will be determined by the calculation agent. In such an event, the calculation agent will make a good faith estimate in its sole discretion of the level that would have prevailed in the absence of the market disruption event. See “General Terms of the Notes—Market Disruption Events” in the accompanying product prospectus supplement PB-1. There Is No Affiliation Between Any Underlier Stock Issuers or the Underlier Sponsor and Us or the Dealer, and Neither We Nor the Dealer Is Responsible for Any Disclosure by Any of the Underlier Stock Issuers or the Underlier Sponsor

We are not affiliated with the issuers of the underlier stocks or with the underlier sponsor. As discussed herein, however, we, the dealer, and our other affiliates may currently, or from time to time in the future, engage in business with the issuers of the underlier stocks. Nevertheless, none of us, the dealer, or our respective affiliates assumes any responsibility for the accuracy or the completeness of any information about the underlier or any of the underlier stocks. You, as an investor in the notes, should make your own investigation into the underlier and the underlier stocks. See the section below entitled “The Underlier” for additional information about the underlier.

Neither the underlier sponsor nor any issuers of the underlier stocks are involved in this offering of the notes in any way, and none of them have any obligation of any sort with respect to the notes. Thus, neither the underlier sponsor nor any of

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the issuers of the underlier stocks have any obligation to take your interests into consideration for any reason, including in taking any corporate actions that might affect the value of the notes.

You Must Rely on Your Own Evaluation of the Merits of an Investment Linked to the Underlier

In the ordinary course of business, we, the dealer, our other affiliates and any additional dealers, including in acting as a research provider, investment advisor, market maker, principal investor or distributor, may express research or investment views on expected movements in the underlier or the underlier stocks, and may do so in the future. These views or reports may be communicated to our clients, clients of our affiliates and clients of any additional dealers, and may be inconsistent with, or adverse to, the objectives of investors in the notes. However, these views are subject to change from time to time. Moreover, other professionals who transact business in markets relating to the underlier or the underlier stocks may at any time have significantly different views from those of these entities. For these reasons, you are encouraged to derive information concerning the underlier or the underlier stocks from multiple sources, and you should not rely solely on views expressed by us, the dealer, our other affiliates, or any additional dealers.

We May Sell an Additional Aggregate Amount of the Notes at a Different Original Issue Price

At our sole option, we may decide to sell an additional aggregate amount of the notes subsequent to the trade date. The price of the notes in the subsequent sale may differ substantially (higher or lower) from the principal amount. If the Original Issue Price for Your Notes Represents a Premium to the Principal Amount, the Return on Your Notes Will Be Lower Than the Return on Notes for Which the Original Issue Price Is Equal to the Principal Amount or Represents a Discount to the Principal Amount

The cash settlement amount will not be adjusted based on the original issue price. If the original issue price for your notes differs from the principal amount, the return on your notes held to maturity will differ from, and may be substantially less than, the return on notes for which the original issue price is equal to the principal amount. If the original issue price for your notes represents a premium to the principal amount and you hold them to maturity, the return on your notes will be lower than the return on notes for which the original issue price is equal to the principal amount or represents a discount to the principal amount.

In addition, the impact of the buffer level and the cap level on the return on your investment will depend upon the price you pay for your notes relative to the principal amount. For example, if you purchase your notes at a premium to the principal amount, the cap level will only permit a lower percentage increase in your investment in the notes than would have been the case for notes purchased at the principal amount or a discount to the principal amount. Similarly, the buffer level, while still providing some protection for the return on the notes, will allow a greater percentage decrease in your investment in the notes than would have been the case for notes purchased at the principal amount or a discount to the principal amount.

Significant Aspects of the Income Tax Treatment of an Investment in the Notes Are Uncertain

The tax treatment of an investment in the notes is uncertain. We do not plan to request a ruling from the Internal Revenue Service or the Canada Revenue Agency regarding the tax treatment of an investment in the notes, and the Internal Revenue Service, the Canada Revenue Agency or a court may not agree with the tax treatment described in this pricing supplement.

The Internal Revenue Service has issued a notice indicating that it and the U.S. Treasury Department are actively considering whether, among other issues, a holder should be required to accrue interest over the term of an instrument such as the notes even though that holder will not receive any payments with respect to the notes until maturity or earlier sale or exchange and whether all or part of the gain a holder may recognize upon sale, exchange or maturity of an instrument such as the notes could be treated as ordinary income. The outcome of this process is uncertain and could apply on a retroactive basis.

Please read carefully the section entitled “Supplemental Discussion of U.S. Federal Income Tax Consequences” in the accompanying product prospectus supplement PB-1, the section entitled “Certain Income Tax Consequences” in the accompanying prospectus supplement and the section entitled “Tax Consequences” in the accompanying prospectus. You should consult your tax advisor about your own tax situation.

Non-U.S. Investors May Be Subject to Certain Additional Risks

The notes will be denominated in U.S. dollars. If you are a non-U.S. investor who purchases the notes with a currency other than U.S. dollars, changes in rates of exchange may have an adverse effect on the value, price or returns of your investment.

This pricing supplement contains a general description of certain U.S. tax considerations relating to the notes. If you are a non-U.S. investor, you should consult your tax advisors as to the consequences, under the tax laws of the country where you are resident for tax purposes, of acquiring, holding and disposing of the notes and receiving the payments that might be due under the notes.

For a discussion of certain Canadian federal income tax consequences of investing in the notes, please see the section entitled “Tax Consequences — Canadian Taxation” in the accompanying prospectus. If you are not a Non-resident Holder (as that term is defined in “Tax Consequences — Canadian Taxation” in the accompanying prospectus) or if you acquire the notes in the secondary market, you should consult your tax advisor as to the consequences of acquiring, holding and disposing of the notes and receiving the payments that might be due under the notes.

Certain Considerations for Insurance Companies and Employee Benefit Plans

Any insurance company or fiduciary of a pension plan or other employee benefit plan that is subject to the prohibited transaction rules of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), or the Internal

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Revenue Code of 1986, as amended (the “Internal Revenue Code”), including an IRA or a Keogh plan (or a governmental plan to which similar prohibitions apply), and that is considering purchasing the notes with the assets of the insurance company or the assets of such a plan, should consult with its counsel regarding whether the purchase or holding of the notes could become a “prohibited transaction” under ERISA, the Internal Revenue Code or any substantially similar prohibition in light of the representations a purchaser or holder in any of the above categories is deemed to make by purchasing and holding the notes. This is discussed in more detail under “Employee Retirement Income Security Act” in the accompanying product prospectus supplement PB-1.

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THE UNDERLIER

General

The underlier is the S&P 500[®] Index (Bloomberg ticker “SPX”). All information contained in this pricing supplement regarding the underlier including, without limitation, its make-up, method of calculation and changes in its components and its historical closing values, is derived from publicly available information prepared by the underlier sponsor. Such information reflects the policies of, and is subject to change by, the underlier sponsor. The underlier sponsor owns the copyright and all rights to the underlier. The underlier sponsor is under no obligation to continue to publish, and may discontinue publication of, the underlier. The consequences of the underlier sponsor discontinuing or modifying the underlier are described in the section entitled “Description of the Notes—Unavailability of the Level of the Underlier” beginning on page PS-6 of the accompanying product prospectus supplement PB-1.

The underlier is calculated and maintained by the underlier sponsor. Neither we nor RBCCM has participated in the preparation of such documents or made any due diligence inquiry with respect to the underlier or underlier sponsor in connection with the offering of the notes. In connection with the offering of the notes, neither we nor RBCCM makes any representation that such publicly available information regarding the underlier or underlier sponsor is accurate or complete. Furthermore, we cannot give any assurance that all events occurring prior to the offering of the notes (including events that would affect the accuracy or completeness of the publicly available information described in this pricing supplement) that would affect the level of the underlier or have been publicly disclosed. Subsequent disclosure of any such events could affect the value received at maturity and therefore the market value of the notes. We, the dealer or our respective affiliates may presently or from time to time engage in business with one or more of the issuers of the underlier stocks of the underlier without regard to your interests, including extending loans to or entering into loans with, or making equity investments in, one or more of such issuers or providing advisory services to one or more of such issuers, such as merger and acquisition advisory services. In the course of business, we, the dealer or our respective affiliates may acquire non-public information about one or more of such issuers and none of us, the dealer or our respective affiliates undertake to disclose any such information to you. In addition, we, the dealer or our respective affiliates from time to time have published and in the future may publish research reports with respect to such issuers. These research reports may or may not recommend that investors buy or hold the securities of such issuers. As a prospective purchaser of the notes, you should undertake an independent investigation of the underlier or of the issuers of the underlier stocks to the extent required, in your judgment, to allow you to make an informed decision with respect to an investment in the notes.

We are not incorporating by reference the website of the underlier sponsor or any material it includes into this pricing supplement. In this pricing supplement, unless the context requires otherwise, references to the underlier will include any successor underlier to the underlier and references to the underlier sponsor will include any successor thereto.

Description of the Underlier

The S&P 500[®] Index

The underlier includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The underlier is calculated, maintained and published by S&P Dow Jones Indices LLC. Additional information is available on the following website: <http://www.standardandpoors.com>. Information on that website is not included or incorporated by reference in this pricing supplement.

The underlier is intended to provide an indication of the pattern of common stock price movement. The calculation of the level of the underlier is based on the relative value of the aggregate market value (as defined below) of the common stocks of 500 companies as of a particular time compared to the aggregate average market value of the common stocks of 500 similar companies during the base period of the years 1941 through 1943. The “market value” of any underlier stock is the product of the market price per share times the number of the then outstanding shares of such underlier stock. The 500 companies are not the 500 largest companies listed on the New York Stock Exchange and not all 500 companies are listed on such exchange.

S&P Dow Jones Indices LLC chooses companies for inclusion in the underlier with the aim of achieving a distribution by broad industry groupings that approximates the distribution of these groupings in the common stock population of its Stock Guide Database of over 10,000 companies, which S&P Dow Jones Indices LLC uses as an assumed model for the composition of the total market. Relevant criteria employed by S&P Dow Jones Indices LLC include the viability of the particular company, the extent to which that company represents the industry group to which it is assigned, the extent to which the market price of that company’s common stock generally is responsive to changes in

the affairs of the respective industry, and the market value and trading activity of the common stock of that company. S&P Dow Jones Indices LLC from time to time, in its sole discretion, may add companies to, or delete companies from, the underlier to achieve the objectives stated above.

Effective with the September 2015 rebalance, consolidated share class lines are no longer included in the S&P 500[®] Index. Each share class line is subject to public float and liquidity criteria individually, but a company's total market capitalization is used to evaluate each share class line. This may result in one listed share class line of a company being included in the S&P 500[®] Index while a second listed share class line of the same company is excluded.

In addition, a company must have a primary listing of its common stock on the NYSE, NYSE Arca, NYSE MKT, NASDAQ Global Select Market, NASDAQ Select Market, NASDAQ Capital Market, Bats BZX, Bats BYX, Bats EDGA, or Bats EDGX.

Calculation of the S&P 500[®] Index

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The underlier is calculated using a base-weighted aggregate methodology: the level of the underlier reflects the total market value of all 500 underlier stocks relative to the underlier's base period of 1941-43, which we refer to as the base period.

An indexed number is used to represent the results of this calculation in order to make the value easier to work with and track over time.

The actual total market value of the underlier stocks during the base period has been set equal to an indexed value of 10. This is often indicated by the notation 1941-43=10. In practice, the daily calculation of the underlier is computed by dividing the total market value of the underlier stocks by a number called the "S&P 500 index divisor." By itself, the S&P 500 index divisor is an arbitrary number. However, in the context of the calculation of the underlier, it is the only link to the original base period level of the underlier. The S&P 500 index divisor keeps the underlier comparable over time and is the manipulation point for all adjustments to the underlier, which we refer to as "S&P 500 index maintenance."

S&P 500 index maintenance includes monitoring and completing the adjustments for company additions and deletions, share changes, stock splits, stock dividends, and stock price adjustments due to company restructurings or spin-offs.

To prevent the level of the underlier from changing due to corporate actions, all corporate actions which affect the total market value of the underlier require an index divisor adjustment. By adjusting the index divisor for the change in total market value, the level of the underlier remains constant. This helps maintain the level of the underlier as an accurate barometer of stock market performance and ensures that the movement of the underlier does not reflect the corporate actions of individual companies in the underlier. All index divisor adjustments are made after the close of trading and after the calculation of the closing level of the underlier. Some corporate actions, such as stock splits and stock dividends, require simple changes in the common shares outstanding and the stock prices of the companies in the underlier and do not require index divisor adjustments.

The table below summarizes the types of index maintenance adjustments and indicates whether or not an index divisor adjustment is required:

Type of Corporate Action	Adjustment Factor	Divisor Adjustment Required
Stock Split (i.e., 2-for-1)	Shares outstanding multiplied by 2; Stock price divided by 2	No
Share Issuance (i.e., change \geq 5%)	Shares outstanding plus newly issued shares	Yes
Share Repurchase (i.e., change \geq 5%)	Shares outstanding minus repurchased shares	Yes
Special Cash Dividends	Share price minus special dividend	Yes

Company Change

Add new
company
market
value minus
old
company
market
value Yes

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".

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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
	(544,285)	(739,784)	(1,124,391)	(1,471,304)	(1,874,461)	(256,614)

Total financial expenses, net						
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	2003	2004	As of December 31,		2007	2007
	(RMB)	(RMB)	2005 (RMB)	2006 (RMB)	(RMB)	(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	2003	2004	Year Ended December 31,		2007	2007
	(RMB)	(RMB)	2005 (RMB)	2006 (RMB)	(RMB)	(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 of 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 subscribed 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 fluidized 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						

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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

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 Jinling 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				
			Unit III: Aug. 2007				
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				
			Unit III: Oct. 1999				
Unit IV: Oct. 1999							
Shang'an	Phase I	Hebei	Unit I: Aug. 1990	2 x 350	100%	700	Coal
			Unit II: Dec. 1990				
			Unit III: Oct. 1997				
Unit IV: Oct. 1997							
Nantong	Phase I	Jiangsu	Unit I: Sep. 1989	2 x 352	100%	704	Coal
			Unit II: Mar. 1990				

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	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

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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
Xindian	Shandong	Unit IV: Nov. 1998				
		Unit III: Jan 2002	2 x 225	100%	450	Coal
		Unit IV: Dec 2001				
Changxing	Zhejiang	Unit V: Sep 2006	2x300	95%	570	Coal
		Unit VI: Nov 15				
		Unit I: Jan. 1992	1 x 135	100%	260	Coal
Yuhuan Phase I	Zhejiang	Unit II: Aug. 1992	1 x 125			
		Unit I: Nov. 2006	2 x 1000	100%	2,000	Coal
Phase II		Unit II: Dec. 2006				
		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				
		Unit IV: Oct. 2004	2 x 300	60%	360	Coal
Phase II		Unit II: Nov. 2004				
		Unit I: Dec. 2004	2 x 600	60%	720	Coal
Qinbei Phase I	Henan					

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			Unit II: Dec. 2004				
	Phase II		Unit III: Nov. 2007	1 x 600	60%	360	Coal
			Unit IV: Nov. 2007				
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
			Unit 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, respectively.

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. Jinling 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 Jinling 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. Jining 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 our newly built and expansion projects as well as large-scaled upgrading projects. Our current insurance coverage maintained with PICC Property and Casualty Company Ltd., China Pacific Property Insurance Co., Ltd., Ping An Property and Casualty Insurance Company of China, Ltd. and Yongcheng Property and Casualty Insurance Company on our property, plant and equipment

(including construction all risk insurance) is approximately RMB160 billion. In July 2007, we purchased liabilities insurance for our directors and officers with a coverage of US\$10 million.

We do not maintain any third party liability insurance to cover claims in respect of bodily injury or property or environment damage arising from accidents on our property or relating to our operation other than the third party additional risk insurance included in construction all risk insurance or erection all risk insurance. We do not usually carry business interruption insurance either, which is not customarily carried by power companies in the PRC. We currently only maintain business interruption insurance for Hanfeng Power Plant acquired in 2004. We believe that our insurance coverage is adequate and is standard for the power industry in China. Please refer to the section entitled "Risk Factors – Risks relating to the Company and the PRC Power

Industry – Operating power plants involves many risks and we may not have sufficient insurance coverage to cover the economic losses if any of our power plant's ordinary operation is interrupted."

ITEM 4A Unresolved Staff Comments

None

ITEM 5 Operating and Financial Review and Prospects

A. General

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

Currently, Huaneng Power International, Inc. is one of the largest listed power producers in China. The power generation business of the Company is widely located, covering the Northeast China Grid, the North China Grid, the Northwest China Grid, the East China Grid, the Central China Grid and the South China Grid. Since its incorporation, the operating scale of the Company continued to expand. Its operating revenue continued to increase. Its competitiveness, its ability to manage resources effectively and its environmental protection standards continued to be maintained at an advanced level when compared with its competitors.

Looking back on 2007, China's national economy continued to develop at a very fast pace. China's power industry thus had gained significant development. The demand and supply of electricity has been generally brought into balance. Over the years, the Company oversaw its overall operations with a scientific development view. The Company actively strengthened the management, encouraged innovation, strengthened environmental protection and fuel saving and undertook efforts to fulfill its social responsibilities. The Company reached its targets in various areas, such as production and operation, construction, facilities renovation and environmental protection. In 2007, a number of technically advanced generating units began their commercial operations as scheduled, which enhanced the Company's power supply capacity. In addition, with a number of environmental protection facilities constructed and having commenced their operations as scheduled, the Company's environmental protection ability has been improved. From the period before to after the 2008 Lunar New Year, the rare sleet in southern China has brought significant negative impact on the economy and daily lives of people in this region. Our employees in southern China took their social responsibilities and made significant contributions in the efforts of securing transportation and power supply, by utilizing the Company's advantages in management and organization, personnel quality and equipment functions.

Critical accounting policies

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

Depreciation of property, plant and equipment

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

	2007	2006
Dam	N/A	45-55 years
Buildings	15-35 years	8-55 years
Electric utility plant in service	7-35 years	4-40 years
Transportation facilities	6-15 years	5-27 years
Others	4-18 years	2.5-18 years

The change of the above range was due to the conversion of Sichuan Hydropower from a subsidiary to an associate.

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

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

Impairment of long-lived assets

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

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

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

Newly adopted accounting policies

The following new standard, amendment to standard and interpretation are mandatory for financial year with annual period beginning on or after January 1, 2007 and relevant to the Company and its subsidiaries.

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

International Financial Reporting Interpretation Committee Interpretation ("IFRIC Interpretation") 10, Interim Financial Reporting and Impairment. This interpretation prohibits the impairment losses recognized in a previous interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at subsequent balance sheet dates. The Company and its subsidiaries considered there will be no significant impact from adopting IFRIC Interpretation 10 on the financial statements of the Company and its subsidiaries.

New accounting pronouncements

For a detailed discussion of new accounting pronouncements, see Note 2(w) to the Financial Statements.

B. Operating results

Our financial statements are prepared under IFRS. The following management's discussion and analysis is based on the financial information prepared under IFRS.

Year ended December 31, 2007 compared with year ended December 31, 2006

	For the Year Ended December 31		
	2007 RMB'000	2006 RMB'000	Increased/ (Decreased) %
Operating revenue	49,767,849	44,301,403	12.34
Sales tax	(139,772)	(148,057)	(5.60)
Operating expenses			
Fuel	(27,790,310)	(22,608,151)	22.92
Maintenance	(1,534,016)	(1,306,888)	17.38
Depreciation	(7,225,964)	(6,719,158)	7.54
Labor	(2,786,109)	(2,886,767)	(3.49)
Service fees on transmission and transformer facilities of HIPDC	(140,771)	(140,771)	-
Others	(2,228,596)	(1,933,200)	15.28
Total operating expense	(41,705,766)	(35,594,935)	17.17
Profit from operations	7,922,311	8,558,411	(7.43)
Financial expense			
Interest income	53,527	51,910	3.12
Interest expense	(2,132,122)	(1,591,033)	34.01
Exchange gain and bank charges, net	204,134	67,819	201.00
Total financial expense, net	(1,874,461)	(1,471,304)	27.40
Share of profits of associates	586,323	790,629	(25.84)
Investment income, net	127,281	128,614	(1.04)
Gain/(Loss) on disposals of investments	545,230	(19)	
Other income, net	12,617	10,442	20.83
Profit before income tax expense	7,319,301	8,016,773	(8.70)

Income tax expense	(838,270)	(1,127,699)	(25.67)
Profit for the year	6,481,031	6,889,074	(5.92)
Attributable to:			
Equity holders of the Company	6,161,127	6,071,154	1.48
Minority interests	319,904	817,920	(60.89)
	6,481,031	6,889,074	(5.92)

From 2007 onwards, the Company's equity interest in Sichuan Hydropower Ltd. Co ("Sichuan Hydropower") is reduced from 60% to 49%, and therefore the financial statements of Sichuan Hydropower are not consolidated into the Company's financial statements from 2007.

Regarding the power market and the utilization of generating equipment, the rapid growth of power demand rendered a good opportunity for the development of power sector. The Company has seized this opportunity in building and putting into operation a large number of generation units in recent years and therefore reinforced and increased its market share. After excluding the electricity sold by Sichuan Hydropower, the Company recorded an increase of 13.25% on its quantity of power sold compared to the prior year.

In respect of the tariff, the average tariff of 2007 is RMB359.71 per MWh, representing an increase of RMB16.12 per MWh compared to the prior year, which is mainly attributable to the implementation of the coal-electricity price linkage mechanism during the second half of 2006 and the relatively higher tariff for the natural gas-fueled plants.

On fuel supply and costs control, the Company's fuel cost increased as a result of the increase in the coal price of key contracts and high coal purchase prices in the open market. Compared to last year, the Company's unit fuel cost per unit of power sold increased by 10.04%.

Combining the foregoing factors, the operating revenue of the Company and its subsidiaries increased by 12.34% from last year (or 16.08% after excluding Sichuan Hydropower). In 2007, the profit attributable to equity holders of the Company amounted to RMB6.161 billion, up 1.48% from RMB6.071 billion for last year. Such an increase was mainly attributable to the commenced operations of new power units, the adjustment of tariff rate under the "coal-electricity price linkage mechanism" implemented in June 2006, as well as the sale of a portion of the shares of Yangtze Power Co., Ltd. ("Yangtze Power") held by the Company.

Operating revenue

Operating revenue represents amounts receivable or received from power sold. For the year ended December 31, 2007, the consolidated operating revenue of the Company and its subsidiaries amounted to RMB49.768 billion, representing an increase of 12.34% from RMB44.301 billion in 2006 (or 16.08% after excluding Sichuan Hydropower). The increase in operating revenue is mainly attributable to the operations of new generating units, which contributed RMB7.838 billion to the increase in revenue.

The following table sets forth the average tariff rate of the Company and its subsidiaries, as well as percentage changes from 2006 to 2007.

Power Plant	Average tariff rate (VAT inclusive) (RMB/MWh)		
	2006	2007	Change
Dalian	315.95	323.27	2.32%
Fuzhou	342.46	369.61	7.93%
Nantong	344.92	339.47	(1.58%)
Shang'an	340.22	344.47	1.25%
Shantou Coal-fired	467.37	476.26	1.90%
Dandong	322.76	330.38	2.36%
Shidongkou II	357.08	347.93	(2.56%)
Nanjing	345.56	342.99	(0.74%)
Dezhou	360.68	360.45	(0.06%)
Weihai	402.99	403.00	0.00%
Jining	342.42	350.80	2.45%
Shidongkou I	358.85	369.54	2.98%
Taicang	361.64	359.69	(0.54%)
Changxing	408.90	428.16	4.71%
Huaiyin Phase I	366.44	N/A	N/A
Huaiyin Phase II	362.26	357.47	(1.32%)
Xindian	350.54	379.71	8.32%
Yushe	281.47	288.45	2.48%
Yingkou	334.47	343.37	2.66%
Jinggangshan	369.87	366.94	(0.79%)
Luohuang	315.46	319.86	1.39%
Yueyang	361.68	372.19	2.91%
Qinbei	311.20	311.86	0.21%
Pingliang	216.27	223.31	3.26%
Yuhuan	360.95	415.05	14.99%

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Taicang II	371.50	358.08	(3.61%)
Xindian II	351.90	356.01	1.17%
Shanghai CCGT	N/A	N/A	N/A
Nanjing Jinling (1)	N/A	481.99	N/A
Consolidated	343.59	359.71	4.69%

(1) Nanjing Jinling refers to Huaneng Nanjing Jinling Power Co., Ltd.

Sales tax

Sales tax mainly consists of taxes associated with value-added tax surcharges. According to relevant administrative regulations, such surcharges include the City Construction Tax and Education Surcharges calculated at prescribed percentages on the amounts of the value-added tax paid. Such surcharges are currently not applicable to direct foreign investments that have been approved by the government, thus, certain power plants of the Company do not have to pay such surcharges. In 2007, the sales tax amounted to RMB140 million, representing an increase of 6.68% after excluding Sichuan Hydropower from 2006, mainly attributable to the increase of the levy base due to the addition of newly operated power plants. Including Sichuan Hydropower in 2006, sales taxes decreased by 5.60% compared to 2005.

Operating expenses

The total operating expenses of the Company and its subsidiaries in 2007 amounted to RMB41.706 billion, representing an increase of 17.17% from RMB35.595 billion in 2006 (or 19.45% after excluding Sichuan Hydropower).

The increase was mainly attributable to the operations of new generating units, which contributed RMB5.938 billion to the increase in total operating expenses. Excluding this factor and Sichuan Hydropower, there would be an increase of RMB583 million.

Fuel

Fuel cost represented the major operating expense of the Company and its subsidiaries, which has increased by 22.92% to RMB27.79 billion in 2007 from RMB22.608 billion in 2006. The increase in fuel cost was due to the operations of new generating units, which accounted for RMB4.208 billion of the increase.

As the average price of natural coal increased by 8.74% from RMB343.73 per ton in 2006 to RMB373.76 in 2007, the unit fuel cost per unit of power sold increased by 10.04% to RMB173.10 per MWh.

Maintenance

The maintenance expenses of the Company and its subsidiaries amounted to RMB1.534 billion in 2007, representing an increase of 17.38% from RMB1.307 billion in 2006 (or 22.23% after excluding Sichuan Hydropower). The increase is mainly due to the operations of new generating units, which contributed RMB233 million of the increase.

Depreciation

Depreciation expenses of the Company and its subsidiaries have increased by 7.54% from RMB6.719 billion in 2006 to RMB7.226 billion in 2007 (or 15.37% after excluding Sichuan Hydropower). The increase is mainly due to the operations of new generating units, which contributed RMB1.036 billion to the increase.

Labor

Labor costs of the Company and its subsidiaries amounted to RMB2.786 billion in 2007, representing a decrease of 3.49% from RMB2.887 billion in 2006 (no substantial change after excluding Sichuan Hydropower).

Service fees paid to HIPDC

The service fees paid to HIPDC refer to fees paid for use of its grid connection and transmission facilities based on reimbursement of cost plus a profit. There was no significant change of these service fees in 2007 compared to that of 2006.

Other operating expenses

Other operating expenses include expenses such as environmental protection expenses, insurance fee, office expenses and amortization, etc. The other operating expenses of the Company and its subsidiaries amounted to RMB2.229 billion in 2007, representing an increase of 15.28% from RMB1.933 billion in 2006 (or 19.20% after excluding Sichuan Hydropower). The increase is mainly due to the operations of new generating units, which contributed RMB310 million to the increase in other operating expenses.

Financial expenses

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

Interest expense

The interest expense of the Company and its subsidiaries in 2007 amounted to RMB2.132 billion, representing an increase of 34.01% from RMB1.591 billion in last year. The increase was primarily attributable to the expensing of interest upon commencement of commercial operations for the new generating units instead of continued capitalization.

Net exchange differences and bank charges

Net exchange differences and bank charges of the Company and its subsidiaries amounted to RMB204 million in 2007, representing a relatively significant change from the RMB68 million of exchange gain less bank charges in 2006. In 2006, because of the appreciation of RMB against US dollar and Euro, loans denominated in US dollar and Euro generated foreign exchange gain of approximately RMB112 million. These loans contributed an exchange gains of RMB232 million in 2007, giving rise to an increase in foreign exchange gain of RMB120 million from 2006. The conversion of Sichuan Hydropower from a subsidiary to an associate brought an investment income of RMB 140 million, which was offset by the decrease of investment income from other associate.

Share of profit of associates

Share of profit of associates in 2007 was RMB586 million, representing a decrease of RMB205 million from RMB791 million in 2006. The decrease of share of profit of associates was primarily due to the decrease in investment income from Shenzhen Energy Group and Shandong Rizhao Power Co. Ltd., ("Rizhao Power") by approximately RMB303 million.

Enterprise Income Tax ("EIT")

The EIT of the Company and its subsidiaries amounted to RMB838 million in 2007, representing a decrease of 25.67% from RMB1.128 billion in 2006 (or 19.91% after excluding Sichuan Hydropower). The decrease in EIT was mainly due to the increase in the profitability from those power plants with lower EIT rates.

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

The profit for the year of the Company and its subsidiaries amounted to RMB6.481 billion in 2007, which represented a decrease of RMB408 million when comparing with that of RMB6.889 billion in 2006. One reason for this decrease was that equity interest in Sichuan Hydropower was diluted and accounted for using equity method in the consolidated financial statements instead of a full scope of consolidation, and another reason is the offsetting effect of the increased revenue from the operation of the new generating units by the increased operating expenses. As the weighting of profits from wholly-owned power plants increased, the profit attributable to equity holders of the Company increased slightly from RMB6.071 billion in 2006 to RMB6.161 billion in 2007. Combining the foregoing factors, the minority interests decreased from RMB818 million in 2006 to RMB320 million in 2007.

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

		For the Year Ended December 31	
		Increased/ (Decreased)	
2006	2005		

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	RMB'000	RMB'000	%
Operating revenue	44,301,403	40,190,004	10.23
Sales tax	(148,057)	(113,475)	30.47
Operating expenses			
Fuel	(22,608,151)	(21,202,952)	6.63
Maintenance	(1,306,888)	(1,165,374)	12.14
Depreciation	(6,719,158)	(6,167,692)	8.94
Labor	(2,886,767)	(2,487,098)	16.07
Service fees on transmission and transformer facilities of HIPDC	(140,771)	(141,102)	(0.23)
Others	(1,933,200)	(1,903,345)	1.57
Total operating expense	(35,594,935)	(33,067,563)	7.64
Profit from operations	8,558,411	7,008,966	22.11
Financial expense			
Interest income	51,910	53,685	(3.31)

	For the Year Ended December 31		
	2006 RMB'000	2005 RMB'000	Increased/ (Decreased) %
Interest expense	(1,591,033)	(1,426,609)	11.53
Bank charges and exchange gain , net	67,819	248,533	(72.71)
Total financial expense, net	(1,471,304)	(1,124,391)	30.85
Share of profits of associates	790,629	644,376	22.70
Investment income, net	128,614	60,872	111.29
Loss on disposal of investments	(19)	-	
Other income, net	10,442	2,385	337.82
Profit before income tax expense	8,016,773	6,592,208	21.61
Income tax expense	(1,127,699)	(1,044,297)	7.99
Profit for the year	6,889,074	5,547,911	24.17
Attributable to:			
Equity holders of the Company	6,071,154	4,871,794	24.62
Minority interests	817,920	676,117	20.97
	6,889,074	5,547,911	24.17

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

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

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

The Company has always been committed to social responsibility and harmonious development. In 2006, the average coal consumption for power generation was 316.39 g/kWh, while weighted average self consumption rate of power plants was 5.69%. Both indices stayed at an advanced level when compared to the rest of the power generation industry, which represented the improvement in efficiency of utilization and in saving of resources. The Company

always emphasizes environmental protection and has effectively reduced the emission levels of sulphur dioxide, nitrogen oxides, dust and other pollutants by using advanced technology and facilities, such as installing desulphurization facilities and other facilities.

Operating revenue

Operating revenue represents amounts receivable or received from electricity sold. For the year ended December 31, 2006, the consolidated operating revenue of the Company and its subsidiaries amounted to RMB44.301 billion, representing an increase of 10.23 % over RMB40.190 billion in 2005. The increase in operating revenue is mainly due to the commencement of operations of new power plants, which increased the operating scale of the Company. The newly operated power plants (including Shantou Phase II which went into operation in the second half of 2005 and those put into operations in 2006, and thus reference applies hereafter) contributed RMB4.527 billion to the increase in revenue.

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

Power Plant	Average tariff rate (VAT inclusive) (RMB/MWh)		
	2005	2006	Change
Dalian	317.58	315.95	(0.51%)
Fuzhou	367.06	342.46	(6.70%)
Nantong	343.00	344.92	0.56%
Shang'an	319.91	340.22	6.35%
Shantou Oil-fired	610.73	-	N/A
Shantou Coal-fired	459.12	467.37	1.80%
Dandong	301.67	322.76	6.99%
Shidongkou II	357.60	357.08	(0.15%)
Nanjing	340.65	345.56	1.44%
Dezhou	349.56	360.68	3.18%
Weihai	398.93	402.99	1.02%
Jining	323.41	342.42	5.88%
Shidongkou I	320.30	358.85	12.04%
Taicang	360.00	361.64	0.46%
Changxing	392.83	408.90	4.09%
Huaiyin Phase I	346.43	366.44	5.78%
Huaiyin Phase II	373.77	362.26	(3.08%)
Xindian	337.25	350.54	3.94%
Yushe	273.58	281.47	2.88%
Yingkou	360.09	334.47	(7.11%)
Jinggangshan	353.49	369.87	4.63%
Luohuang	300.90	315.46	4.84%
Yueyang	341.34	361.68	5.96%
Qinbei	299.77	311.20	3.81%
Pingliang	211.43	216.27	2.29%
Sichuan Hydropower	262.52	266.32	1.45%
Yuhuan	-	360.95	N/A
Taicang II	-	371.50	N/A
Xindian II	-	351.90	N/A
Consolidated	331.41	343.59	3.68%

The average tariff rate of the Company and its subsidiaries increased by approximately 3.68% from RMB331.41 per MWh in 2005 to RMB343.59 per MWh. The major reason for such was the implementation of the "Coal-electricity price linkage mechanism", and the tariff of each coal-fired power plant was adjusted accordingly.

Sales tax

Sales tax mainly consists of taxes associated with value-added tax. According to relevant administrative regulations, such additional taxes include the City Construction Tax and Education Tax. The additional taxes are based on the value-added tax that the Company and its subsidiaries paid, a percentage of which will be taken as the additional taxes according to regulations. Such taxes are currently not applicable to direct foreign investments that have been approved by the government, hence certain power plants of the Company do not have to pay such taxes. In 2006, the sales tax increased 30.47% to RMB148 million from RMB113 million in 2005, mainly due to the increased number of power

plants that needed to pay such taxes due to the newly operated power plants.

Operating expenses

The total operating expenses of the Company and its subsidiaries increased by 7.64% from RMB33.068 billion in 2005 to RMB35.595 billion in 2006. The increase was attributable to the expansion of the scale of operations and the increase in fuel cost. The newly operated power plants accounted for RMB3.296 billion of the increase in total operating expenses.

Fuel

Fuel cost represented the major operating expenses of the Company and its subsidiaries, which has increased by 6.63% to RMB22.608 billion in 2006 from RMB21.203 billion in 2005. The increase in fuel cost was due to expansion of the scale of operation and increase in fuel price. In 2006, RMB1.235 billion of the increase in fuel cost was due to the increase in the quantities of electricity generated, while the increase in fuel price accounted for RMB0.17 billion of the increase.

As the average price of natural coal increased by 1.69% from RMB338.03 per ton in 2005 to RMB343.73 in 2006, the unit fuel cost per quantity sold (per Mwh) hence increased by 0.75% to RMB157.31.

Maintenance

The maintenance expenses of the Company and its subsidiaries amounted to RMB1,307 million in 2006, representing an increase of 12.14% from RMB1,165 million in 2005. The increase in the maintenance expenses was mainly due to the expansion of scale of operation of the Company.

Depreciation

Depreciation expenses of the Company and its subsidiaries have increased by 8.94% from RMB6.168 billion in 2005 to RMB6.719 billion in 2006. The newly operated power plants accounted for RMB566 million of the increase. Depreciation of the remaining power plants has decreased by RMB15 million from the prior year.

Labor

Labor costs of the Company and its subsidiaries amounted to RMB2.887 billion in 2006, representing an increase of RMB0.4 billion from RMB2.487 billion in 2005. The main reason for the increase in labor costs was that, as a result of the operation of new power plants and the expansion of scale of operations of the Company which contributed the increase of RMB0.261 billion.

Service fees to HIPDC

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

Other operating expenses

Other operating expenses include expenses such as environmental protection, insurance fee, administrative expenses and amortization, etc. The other operating expenses of the Company and its subsidiaries amounted to RMB1,933 million, representing an increase of 1.57% from RMB1,903 million in 2005. The expansion of scale of operations of the Company and the increase in environmental protection fee levy rates caused the environmental protection fee to increase by RMB55 million. The other operating expenses apart from environmental protection fee decreased by RMB25 million as a result of cost control of the Company.

Financial expenses

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

Interest expense

The interest expense of the Company and its subsidiaries in 2006 amounted to RMB1,591 million, representing an increase of 11.53 % from RMB1,427 million in last year. The increase was primarily attributable to the expensing of interest upon commencement of commercial operation for the newly operated power plants instead of continued capitalization.

Bank charges and net exchange differences

Bank charges and net exchange differences of the Company and its subsidiaries amounted to RMB68 million in 2006, representing a relatively significant change from the RMB249 million of exchange gain plus bank charges in 2005. In 2005, RMB appreciated against US dollar and Euro. As a result, loans denominated in US dollar and Euro generated approximately RMB290 million in foreign exchange gain, while in 2006, an exchange gain of RMB112 million resulted, giving rise to a decrease to a foreign exchange gain of RMB178 million.

Share of profit of associates

Share of profit of associates in 2006 was RMB791 million, representing an increase of RMB147 million from RMB644 million in 2005. The increase of share of profit of associates has benefited from the increase in investment income from Shandong Rizhao Power Company Ltd. and the inclusion of investment income from Huaneng Finance in the Company's accounts starting from January 2006.

Enterprise Income Tax ("EIT")

The EIT of the Company and its subsidiaries amounted to RMB1,128 million, representing an increase of 7.99% from RMB1,044 million in 2005. The increase in EIT was mainly caused by the increase of profit.

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

The profit of the Company and its subsidiaries amounted to RMB6.889 billion in 2006, which represented a significant increase when comparing with the profit of RMB5.548 billion in 2005, reflecting that the actual effective implementation of the Company's acquisition and development strategy plays an important role in raising revenue and maintaining profit level. The pace of profit increase was more proportionate than that of the revenue as a result of the effective cost controls implemented by the Company and its subsidiaries. The profit attributable to equity holders of the Company and minority interests increased at similar pace.

C. Financial position

General

Compared with 2006, the assets and liabilities of the Company and its subsidiaries experienced a significant change as a result of the exclusion of Sichuan Hydropower from the consolidation scope, the acquisition of Jinling Power Plant and the continuous investments in construction projects.

Assets

As of December 31, 2007, the total assets of the Company and its subsidiaries amounted to RMB124.296 billion, representing an increase of 9.09% from RMB113.939 billion in 2006. Amongst which, non-current assets increased by 5.35% to RMB105.745 billion and current assets increased by 36.76% to RMB18.551 billion. The increase in non-current assets was primarily due to the combination of continuous investments in construction projects, purchase of assets and the appreciation of the stock investment in Yangtze Power and the impact of the exclusion of Sichuan Hydropower from the Company's consolidated financial statements. Current assets increased by RMB4.987 billion from the beginning of 2007. Amongst which, cash and cash equivalents increased by RMB4.105 billion, which was attributable to the unused proceeds from the issuance of "2007 HPI Bonds", while the net increase in accounts receivable amounted to RMB561 million, primarily due to the increase in receivables for power sold generated by the new generating units.

Liabilities

As of December 31, 2007, the total liabilities of the Company and its subsidiaries amounted to RMB72.216 billion, representing an increase of 14.03% from RMB63.330 billion as of December 31, 2006, mainly due to the increase in loans for the financing of construction projects and the issuance of "2007 HPI Bonds". The non-current liabilities of the Company and its subsidiaries mainly consisted of bank loans, bonds and shareholder's loans, that are of similar terms as bank loans. The current liabilities increased compared with the beginning of the year as a result of an increase in short-term loans.

As of December 31, 2007, total interest-bearing debts of the Company and its subsidiaries amounted to RMB60.535 billion, which included long-term loans (inclusive of current portion), long-term bonds, short-term loans, short-term bonds and notes payable. Amongst which, liabilities denominated in foreign currencies amounted to approximately RMB4.174 billion.

Shareholder's equity

Excluding the impact of profit and its appropriation, there was an increase in equity from the beginning to the end of 2007. This was mainly attributable to the appreciation of the stock price of Yangtze Power that recorded in equity.

Major financial position ratios

	2007	2006
Current ratio	0.59	0.51
Quick ratio	0.52	0.43
Ratio of liability and shareholders' equity	1.54	1.46
Multiples of interest earned	3.41	3.87

Formula of the financial ratios

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

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

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

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

The current ratio and quick ratio remained at a relatively low level in both years while there was an increase at the end of 2007. The increase in the ratio of liabilities and shareholders' equity at year end

compared with the beginning of 2007 was mainly due to the issuance of the "2007 HPI Bonds" and the increase in loans for construction projects. The multiples of interest earned decreased from that of the prior year mainly due to the increase in construction interest expense resulted from the continuous investments in new construction projects.

D. Liquidity and cash resources

The primary sources of funding for the Company and its subsidiaries have been cash provided by internal funds from operating activities, short-term and long-term loans and proceeds from issuances of bonds, and the primary use of funds have been for working capital, capital expenditure and repayments of short-term and long-term borrowings.

As of December 31, 2007, the net current liabilities of the Company and its subsidiaries totaled RMB12.8 billion. Based on the successful financing record of the Company, the significant amount of undrawn banking facilities available to the Company and the stable operating results, the Company believes that it will be able to meet its liabilities as and when they fall due and secure the capital required for operations. In addition, the Company will continue to minimize interest expense by issuing short-term bonds. The Company is confident that it will be able to control the debt level and respective financial risks.

Cash flows from operating activities

	For the Year Ended December 31,		
	2007	2006	2005
	RMB'000	RMB'000	RMB'000
Cash flows from operating activities			
Profit before income tax expense	7,319,301	8,016,773	6,592,208
Non-cash items adjustments	7,693,424	7,425,755	6,894,680
Changes in working capital	(1,798,882)	(99,402)	(1,778,721)
Interest paid	(2,722,935)	(2,507,354)	(1,965,094)
Interest received	52,825	53,444	52,475
Income tax paid	(1,192,133)	(1,394,503)	(1,114,698)
Net cash provided by operating activities	9,351,600	11,494,713	8,680,850

Net cash provided by operating activities is the main source of cash for the Company. The net cash provided by operating activities amounted to RMB9.352 billion in 2007 which was lower than that of the prior year mainly because of the exclusion of Sichuan Hydropower from the Company's consolidated financial statements. The net cash provided by operating activities amounted to RMB11.495 billion in 2006 which was higher than that of RMB8.681 billion in 2005, mainly due to the increase in the scale of operations.

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

Cash flows used in investing activities

	For the year ended December 31,		
	2007	2006	2005
	RMB'000	RMB'000	RMB'000
Cash flows from investing activities			

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Purchase of property, plant and equipment	(14,223,310)	(15,998,575)	(13,842,293)
Proceeds from disposals of property, plant and equipment, net	270,131	32,180	32,098
Prepayments of land use rights	(216,752)	(250,627)	(99,745)
Prepayments of territorial waters use right	(152,409)	-	-
(Increase) / Decrease in other non-current assets	(6,247)	(8,973)	15,766
Decrease in temporary cash investments	-	2,652	9,989
Cash dividend received	518,934	482,609	429,589
Capital injections in associates	(1,654,000)	(174,918)	-
Purchases of financial assets at fair value through profit or loss	(370,189)	-	-

Cash paid for acquiring available-for-sale investments	(449,457)	-	-
Proceeds from trading of available-for-sale investment	603,411	-	-
Cash consideration paid for acquisitions	(485,750)	-	(2,544,998)
Cash from the power plants acquisitions	259,924	-	566,704
Cash outflow upon deemed disposal of Sichuan Hydropower	(322,176)	-	-
Others	(29,465)	110	19,521
Net cash used in investing activities	(16,257,355)	(15,915,542)	(15,413,369)

Net cash used in investing activities amounted to approximately RMB16.257 billion, RMB15.916 billion and RMB15.413 billion in 2007, 2006 and 2005. The increase in net cash used in investing activities in 2007 was mainly due to the increased capital injection in associates offset by the decrease of capital expenditure on construction and renovation. The increase in net cash used in investing activities in 2006 was mainly due to the increase of capital expenditures on construction and renovation offset by no payment for acquisition as in 2005.

Net cash used in investing activities was primarily the capital expenditure used in purchasing and constructing fixed assets. In 2008, the Company will continue invest large amount of capital into the construction of projects.

Cash flows from financing activities

	For the year ended December 31,		
	2007 RMB'000	2006 RMB'000	2005 RMB'000
Cash flows from financing activities			
Short-term bonds issuance expense paid	(20,000)	(20,000)	(22,500)
Issuance of short-term bonds	5,000,000	5,000,000	4,862,200
Repayments of short-term bonds	(5,000,000)	(4,862,200)	-
Drawdown of short-term loans	23,898,505	14,458,700	11,657,569
Repayments of short-term loans	(19,771,700)	(13,215,850)	(13,670,000)
Drawdown of long-term loans from Huaneng Group	-	-	2,000,000
Drawdown of long-term bank loans	8,186,176	9,982,982	8,297,018
Repayments of long-term bank loans	(3,282,102)	(3,010,623)	(2,933,870)
Drawdown of other long-term loans	-	40,000	-
Repayments of other long-term loans	(210,873)	(472,154)	(351,118)
Long-term bonds issuance expense paid	(96,356)	-	-
Issuance of long-term bonds	6,000,000	-	-
Net capital injection from minority shareholders of the subsidiaries	116,890	588,708	585,702
Dividends paid to shareholders of the Company	(3,375,507)	(3,013,846)	(3,022,096)
Dividends paid to minority shareholders of the subsidiaries	(434,205)	(495,361)	(318,252)
Net cash provided by financing activities	11,010,828	4,980,356	7,084,653

Net cash inflow provided by financing activities in 2007 amounted to RMB11.011 billion primarily because (i) the Company issued long-term bonds in the amount of RMB6.0 billion, (ii) our proceeds from bank loans exceeded repayments of bank loans which were offset by dividends by approximately RMB5.7 billion.

Net cash inflow provided by financing activities in 2006 amounted to RMB4.980 billion primarily because our proceeds from bank loans exceeded repayments of bank loans by approximately RMB8 billion. On the other hand, the net cash inflow was partially offset by the dividends of RMB3.014 billion paid to the shareholders of the Company.

Net cash inflow provided by financial activities in 2005 amounted to RMB7.085 billion primarily because our proceeds from bank and other loans exceeded repayments of bank and other loans by approximately RMB5 billion. The net cash inflow was further increased by issuance of short-term bonds in the principal amount of RMB5 billion. On the other hand, the net cash inflow was partially offset by the dividends of RMB3.022 billion paid to the shareholders of the Company.

Cash and cash equivalents

	For the Year Ended December 31,		
	2007	2006	2005
	RMB'000	RMB'000	RMB'000
Net increase in cash and cash equivalents	4,105,073	559,527	352,134
Cash and cash equivalents as of the beginning of the year	3,207,192	2,647,665	2,295,531
Cash and cash equivalents as of the end of the year	7,312,265	3,207,192	2,647,665

As of December 31, 2007, the Company's cash and cash equivalents amounted to RMB7.312 billion, of which, cash in RMB accounted for RMB0.528 billion, current deposits in RMB accounted for RMB7.311 billion, and current deposits in US dollar accounted for RMB1.111 billion.

As of December 31, 2006, the Company's cash and cash equivalents amounted to RMB3.207 billion, of which, cash in RMB accounted for RMB1.327 billion, current deposits in RMB accounted for RMB3.204 billion, and current deposits in US dollar accounted for RMB2.153 billion.

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

Capital expenditure and cash resources

Capital expenditures on acquisitions

In December 2007, the Company completed its subscription of 200 million placed shares, or 9.08% equity interest, in Shenzhen Energy Investment Company Limited ("Shenzhen Energy") through the placement arrangement by Shenzhen Energy, for a consideration of RMB1.52 billion.

In December 2007, the Company acquired 60% equity interest of Jinling Power Plant for a consideration of RMB420 million.

In January 2005, the Company paid cash consideration of RMB2.025 billion to acquire 65% equity interest in the Pingliang Power Company and 60% equity interest in Sichuan Hydropower. At the end of 2005, the Company paid consideration of RMB126 million to Huaneng Group and advanced a payment (which represented an injection of capital) of RMB162 million to Huaneng Finance in order to acquire 20% equity interest in Huaneng Finance.

The Company continues to follow the strategy of a balance between development and acquisition by proactively seeking new acquisition opportunities to ensure the sustainable growth of profitability and shareholders' value. Since there are uncertainties associated with asset acquisition projects and their scales, the level of capital expenditures required are also uncertain. However, the Company believes that its cash flows from operating activities and the sound financing capability should provide it with a sufficient cash supply for asset acquisition projects.

Capital expenditures on construction and renovation projects

The capital expenditures in 2007 amounted to approximately RMB14.701 billion, which was mainly used in construction and renovation projects, including RMB2.608 billion for Yuhuan project, RMB330 million for Luohuang expansion project, RMB220 million for Xindian expansion project, RMB421 million for Shanghai CCGT project, RMB249 million for Huaiyin expansion project, RMB296 million for Yueyang expansion project, RMB1.062 billion for Yingkou expansion project, RMB1.735 billion for Qinbei expansion project, RMB1.614 billion for Shang'an expansion project, RMB1.276 billion for Rizhao expansion project and RMB1.828 billion for Haimen project. The

expenditures on construction for other projects amounted to RMB585 million and the expenditures on renovation amounted to RMB2.477 billion.

The capital expenditures on construction and renovation amounted to approximately RMB16.3 billion and RMB13.984 billion in 2006 and 2005, respectively.

The cash resources of the above capital expenditures are mainly from debt financing and cash flows provided by operating activities.

The Company will continue to incur significant capital expenditures in the next few years and will actively accelerate the development of planned projects based on the principles of commercial viability. The Company will actively engage in new project developments to lay the foundation for its long-term development. The Company expects to finance the above capital expenditures through internal funding, debt financing and cash flows provided by operating activities.

Cash resources and anticipated financing costs

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

Good operating results and credit status provide the Company with strong financing capabilities. As of December 31, 2007, the Company and its subsidiaries had undrawn banking facilities of RMB18.7 billion, which provided the Company with a sufficient level of credit facilities.

As of December 31, 2007, the total short-term loans of the Company and its subsidiaries amounted to RMB11.67 billion (2006: RMB8.162 billion) with interest rates charged between 4.35% and 16.72% (2006: 4.30% and 5.51%) per annum. In addition, total short-term bonds of the Company and its subsidiaries amounted to RMB5.065 billion.

As of December 31, 2007, the total long-term bank loans of the Company and its subsidiaries amounted to approximately RMB34.732 billion (2006: approximately RMB35.206 billion). These loans included bank borrowings denominated in Renminbi of approximately RMB30.684 billion (2006: approximately RMB30.096 billion), US dollars of approximately US\$465 million (2006: approximately US\$567 million), and Euros of approximately Euro 61 million (2006: approximately Euro 66 million). Included in these borrowings were approximately US\$47 million (2006: US\$54 million) of floating-rate borrowings. For the year ended December 31, 2007, the long-term bank borrowings bore interest rates that ranged from 2% to 7.05% (2006: 2% to 6.97%) per annum.

As of December 31, 2007, the total long-term shareholder's loans to the Company and its subsidiaries amounted to RMB2.80 billion (2006: RMB2.80 billion). For the year ended December 31, 2007, these borrowings bore interest rates that ranged from 4.32% to 5.67% (2006: 4.05% to 5.02%) per annum.

As of December 31, 2007, other long-term loans of the Company and its subsidiaries amounted to approximately RMB126 million (2006: approximately RMB424 million). These loans included borrowings denominated in Renminbi of nil (2006: approximately RMB254 million), US dollars of approximately US\$10 million (2006: approximately US\$13 million) and Japanese Yen of approximately JPY833 million (2006: approximately JPY1.071 billion). Both the US dollar and Japanese Yen borrowings were at floating rates. For the year ended December 31, 2007, these borrowings bore interest rates that ranged from 5.80% to 5.87% (2006: 4.94% to 6.12%) per annum.

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

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

Other financing requirements

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

profit appropriation plan of the board of directors of the Company (subject to the approval of the shareholders' meeting), the Company expects to pay a cash dividend of approximately RMB3.617 billion.

Maturity profile of loans

The following table sets forth the maturity profile of the Company's loans as of December 31, 2007.

Maturity Profile (RMB billions)	2008	2009	2010	2011	2012
Principal proposed to be repaid	21.0	9.7	10.9	4.2	5.2
Interest proposed to be repaid	3.4	2.5	1.8	1.4	1.1
Total	24.4	12.2	12.7	5.6	6.3

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

(2) The amount of the principal to be repaid in 2008 is relatively large compared to the amount presented in the "Tabular disclosure of contractual obligations and commercial commitments" because this includes expected repayment of short-term loans and short-term bonds.

E. Trend information

The major trend of the electricity power market

In August 2007, General Office of the State Council issued the "Notice concerning the Interim Measures of Energy Saving and Electricity Dispatch promulgated by the National Development Reform Commission forwarded by the General Office of the State Council" (Guofaban [2007] 53) (the "Notice"). The Notice provided that the energy saving and electricity dispatch shall "consolidate with the development of power market which optimizes 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. As the State highly emphasizes energy saving and emission reduction, the related policies will become one of the critical factors for the development trend of the power market.

The trend of the coal supply in 2008

Since 2008, the sea freight charges and coal prices of the key contracts have increased significantly compared to those in the same period in 2007. At the end of 2007 and in early 2008, the coal supply experienced shortages and the market price increased significantly. The increases in coal price and the transportation costs bring challenges to the Company in respect of fuel cost control.

The financial foreign exchange market

The Company has strong capacity, good reputation and sound financing channels both domestically and internationally. The government has raised the benchmark interest rates several times in 2007 in order to control the excessive growth of investments and lending, which has brought an impact to the Company's control of finance costs. The Company expects to continue to incur significant amount of expenditures for the project developments and environmental protection in the next few years. The sufficient cash inflow of operating activities and the sound financing channels will provide crucial capital resources for such investments. In terms of the impact of the

fluctuation of foreign exchange on the Company, as most of the Company's liabilities denominated in foreign currencies are denominated in U.S. dollar, and only a small portion is denominated in Euro, and Renminbi keeps appreciation trend against U.S. dollar, the Company expects no adverse impact on its operating results.

F. Employee benefits

As of December 31, 2007, the Company and its subsidiaries had 22,899 employees. The Company and its subsidiaries provided the employees with competitive remuneration and linked such remuneration to operating results as working incentives for the employees. Currently, the Company and its subsidiaries do not have any non-cash remuneration packages.

Based on the development plans of the Company and its subsidiaries and the requirements of individual positions, together with consideration of specific characteristics of individual employees, the Company and its subsidiaries tailored various training programs for their employees on management skills, technical skills and marketing skills. These programs enhanced both the knowledge and operational skills of the employees.

G. Guarantee on loans and restricted assets

As of December 31, 2007, the balance of the guarantees provided by the Company to Rizhao Power Company, an associate, amounted to RMB86 million.

As of December 31, 2007, restricted bank deposits amounted to RMB220 million, which were mainly deposits for letters of credits.

The Company had no contingent liabilities as of December 31, 2007.

H. Off-balance sheet arrangements

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

The off-balance sheet arrangement does not have or reasonably likely to have an effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

I. Performance of significant investments and their prospects

On April 22, 2003, the Company paid RMB2.39 billion to acquire a 25% equity interest in Shenzhen Energy Group. This investment brought the Company an investment income of RMB270 million in 2007 under IFRS. In December 2007, the Company acquired 200 million shares from a subsidiary of Shenzhen Energy Group, Shenzhen Energy. In addition, Shenzhen Energy acquired most of the assets of Shenzhen Energy Group by issuing and placing new shares and Shenzhen Energy Group will be liquidated when appropriate. Upon its liquidation, the Company will hold a total of 25.01% direct equity interest in Shenzhen Energy. It is estimated that this investment will provide steady investment returns to the Company in the future.

In July 2004, the Company paid RMB1.375 billion to acquire 40% equity interest in Hebei Hanfeng Power Company. This investment brought the Company an investment income of RMB145 million in 2007 under IFRS. It is estimated that this investment will provide steady investment returns to the Company in the future.

As of December 31, 2006, the Company held 60% equity interest in Sichuan Hydropower directly. In January 2007, Huaneng Group increased its capital investment in Sichuan Hydropower by RMB615 million

which resulted in the decrease of the Company's equity interest in Sichuan Hydropower to 49%. Huaneng Group became the controlling shareholder of Sichuan Hydropower. This investment brought an investment income of RMB140 million to the Company under IFRS. It is estimated that this investment will provide steady investment returns to the Company in the future.

J. Tabular disclosure of contractual obligations and commercial commitments

A summary of payments due by period of our contractual obligations and commercial commitments as of December 31, 2007 is shown in the tables below. A more complete description of these obligations and commitments is included in the Notes to Financial Statements as referenced below.

As of December 31, 2007

Contractual Cash Obligations (RMB million)	2008	2009-2010	2011-2012	Thereafter	Total
Long-term Loans from a Shareholder(1)	-	-	-	2,800	2,800
Long-term Bank Loans(1)	4,283	20,528	8,375	6,188	39,374
Other Long-term Loans(1)	36	72	18	-	126
Long-term bonds(2)	-	-	1,000	5,000	6,000
Interest Payments	2,804	4,312	2,453	2,712	12,281
Operating Lease - Head Office(3)	26	-	-	-	26
Operating Lease - Nanjing Power Plant(3)	1	3	3	48	55
Operating Lease - Dezhou Power Plant(3)	30	60	60	342	492
Operating Lease - Shang'an Power Plant(3)	2	4	4	60	70
	7,182	24,979	11,913	17,150	61,224
Other Commercial Commitments (RMB millions)					
	2008	2009-2010	2011-2012	Thereafter	Total
Long-term coal purchase contracts(3)	8,760	7,808	-	-	16,568
Long-term gas purchase contract (3)	681	1,362	1,362	7,491	10,896
Other commitments(3)	18,529	35	-	-	18,564
	27,970	9,205	1,362	7,491	46,028

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

(2) See Note 23 to the Financial Statements, "Long-term Bonds".

(3) See Note 35 to the Financial Statements, "Commitments".

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

K. Business Plan

The primary objective of the Company in 2008 is to secure safe, stable and increasing power generation as well as to strengthen cost control. The Company will continue its focus on energy saving and environmental protection;

reducing consumptions of individual generating units; and ensuring good results of major economic indicators. The Company will also strengthen project management; speed up the construction of the projects-under-construction of totaling 4,560 MW; and reinforce the project preliminaries and preparation work for new projects totaling over 11,000 MW. Pursuant to the prevailing energy policies of the State and the demand for renewable energy, the Company will, along with the process of developing coal-fired electricity, invest, develop and construct the projects for wind-power and hydro-power. In the future, the Company will actively seek appropriate opportunities for acquiring assets of good quality.

In 2008, the Company strives to generate approximately 200.8 billion kWh in total and to reach average utilization hours of 5,757 hours for its coal-fired generating units. In order to achieve the 2008 operating goals, the Company will take further measures to ensure production safety; improve equipment reliability; strive to expand the markets through reinforced sales and marketing management; increase the utilization hours; and generate more power. The Company will make efforts to control coal purchase prices in response to the soaring prices in the fuel market so as to contain the increase in unit fuel cost within 18% or thereabout. The Company will further exploit potentials to control other costs; explore more revenue and control expenditure; implement measures to save energy and reduce emissions and to increase efficiency of generating units and reduce costs. Moreover, the Company will speed up its project construction and commercial operations in relatively more profitable markets to increase its profitability. The Company will strengthen its research and development and attempt to achieve a breakthrough in the area of renewable energy development in 2008. The Company will strengthen its capital operations, domestically and internationally, and will seek good opportunities and projects for acquisition. On the basis of energy saving, reducing emissions, adjusting structure and enhancing efficiency, the Company strives to achieve the following objectives by 2010: power generation installed capacity of over 60,000 MW; controllable coal supply capacity of 50,000,000 tons/year; port coal storage and transportation and transit capacity of over 40,000,000 tons/year; and ocean coal transportation capacity of over 30,000,000 tons/year.

ITEM 6 Directors, Senior Management and Employees

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

Directors

The table below sets forth certain information concerning our directors as of April 10, 2008. The current term for all of our directors is three years, which will expire in May 2008.

Name	Age	Position with us
Li Xiaopeng	49	Chairman of the Board of Directors
Huang Yongda	51	Vice Chairman of the Board of Directors
Huang Long	55	Vice Chairman of the Board of Directors
Na Xizhi	55	Director, President
Wu Dawei	55	Director
Shan Qunying	55	Director
Ding Shida	60	Director
Xu Zujian	54	Director
Liu Shuyuan	58	Director
Qian Zhongwei	70	Independent Director
Xia Donglin	47	Independent Director
Liu Jipeng	52	Independent Director
Wu Yusheng	52	Independent Director
Yu Ning	54	Independent Director

Li Xiaopeng, aged 49, has served as Chairman of the Company since April 8, 1999. He also serves as President of Huaneng Group as well as Chairman and President of HIPDC. Mr. Li is a senior engineer. He served as Vice President, President and Vice Chairman of the Company as well as Vice President, President and Vice Chairman of HIPDC, Chairman of Huaneng Group and Vice President of State Power Corporation. Before joining HIPDC, he had successively served as Engineer of the Power System Research Division, as Deputy Division Chief of the Planning and Operations Division, and as General Manager of the Power Technology and Economic Research Division,

Electric Power Research Institute. He graduated from the North China Institute of Electric Power specializing in power plants and power systems, holding a bachelor's degree. He is a senior engineer.

Huang Yongda, aged 51, has served as Vice Chairman of the Company since May 11, 2005. He also serves as vice President of Huaneng Group. Mr. Huang is a senior accountant. He served as Deputy Director of the Economic Moderation and State Asset Supervision Office of Ministry of Power Industry, Deputy Director of the General Office of the Ministry of Power Industry, Deputy Officer of the Finance and Asset Management Department of State Power Corporation, Deputy Director of the Power Department of the State Economic and Trade Commission, President of Jiangxi Province Power Corporation, Vice President of HIPDC, Chairman of Xi'an Thermal Industrial Research Institute Limited Company ("Xi'an Thermal"), Chairman of Huaneng Capital Services Limited Company (Huaneng Capital Service), and President of the Company. He graduated from Renmin University of China with a master's degree in industrial financial accounting.

Huang Long, aged 55, has served as Vice Chairman of the Company since March 7, 2006. He also serves as Vice President of Huaneng Group. Mr. Huang is a senior engineer. He served as Deputy General Manager and General Manager of the International Co-operation Department, Vice President and Secretary to the Board of the Company. He graduated from North Carolina State University in the U.S. with a M.S. degree in communications and auto-control.

Na Xizhi, aged 55, has served as a Director of the Company since May 12, 2005 and President of the Company since March 7, 2006. Mr. Na is a professor-level senior engineer. He served as Deputy Manager of the Power Generation Department, General Manager of the Operation Department, General Manager of the Power Safety and Production Department, Deputy Chief Engineer and Vice President of Huaneng Group. He graduated from Wuhan Hydroelectric University, specializing in thermal power with a master degree in engineering.

Wu Dawei, aged 55, has served as a Director of the Company since May 11, 2005. He also serves as Deputy Chief Engineer of Huaneng group and President of Huaneng Group East China Branch Company. Mr. Wu is a professor-level senior engineer. Since joining the Company in 1988, he has served as Deputy General Manager of Huaneng Shanghai Shidongkou Second Power Plant, Deputy General Manager of Shanghai branch of the Company, General Manager of Huaneng Shanghai Shidongkou Second Power Plant. He has obtained a MBA degree from the China Europe International Business School.

Shan Qunying, aged 55, has served as a Director of the Company since June 6, 2006. He also served as Vice President of Hebei Provincial Construction Investment Company. Mr. Shan is a senior engineer. He served as Division Chief of 9th Energy and Transportation Division of Hebei Provincial Construction Investment Company. He graduated from Beijing Steel Institute specializing in automation, holding a bachelor's degree.

Ding Shida, aged 60, has served as a Director of the Company since November 17, 2005. He also serves as President of Fujian Investment Enterprise Group Corporation, General Manager of Fujian Investment Enterprise Group Corporation, Chairman of Minxin Group Limited (a Hong Kong listed company), Director, Executive Director and Vice Chairman of Xiamen International Bank, Director and Executive Director Chairman of Macau International Bank, and Chairman of Hong Kong Guixin Limited. Mr. Ding is a senior economist. He served as Secretary of the Party Committee of Shanghang County, member of the Party Committee of Longyan Region, Secretary of the Party Committee of Longyan City, General Manager of Fujian Provincial Construction Materials Corporation. He graduated from the China Academy of Social Sciences, specializing in agricultural economics management and was conferred a doctoral degree in management.

Xu Zujian, aged 54, has served as a Director of the Company since June 6, 2000. He also served as a Director and Vice President of Jiangsu Province Guoxin Asset Management Group Limited Company, and Chairman of Jiangsu Investment Management Co. Ltd. Mr. Xu is a senior economist. He served as Vice President of Jiangsu Provincial International Trust & Investment Corporation, and President of Jiangsu Provincial Investment & Management Limited Liability Company. He graduated from Liaoning Finance Institute specializing in infrastructure finance, holding a bachelor's degree.

Liu Shuyuan, aged 58, has served as a Director of the Company since September 28, 2004. He also serves as Chairman of Liaoning Energy Investment (Group) Limited Liability Company. Mr. Liu is a senior economist and senior professional manager. He served as Deputy General Manager of Liaoning Provincial Trust & Investment Corporation, a Director, Vice President and President of Liaoning Chuangye (Group) Limited Liability Company (Liaoning Energy Corporation), and a Director and General Manager of Liaoning Energy Investment (Group) Limited Liability Company. He graduated from Liaoning Province Communist Party School with a master's degree in economic management.

Qian Zhongwei, aged 70, has served as an Independent Director of the Company since May 15, 2002. Mr. Qian is a professor-level senior engineer. He served as Deputy Chief Engineer, Chief Engineer and Deputy Chief of the Eastern China Power Industry Management Bureau, Chief of Shanghai Electricity Bureau, Chief of Eastern China Power Administration Bureau, and President of Eastern China Power Group Company. He graduated from the electrical engineering department of Tsinghua University, holding a bachelor's degree of high voltage engineering.

Xia Donglin, aged 47, has served as an Independent Director of the Company since December 23, 2002. Mr. Xia is a Professor and Ph.D tutor of the School of Economics and Management, Tsinghua University. He is also an Advisory Specialist of the Accounting Standard Committee of the Ministry of Finance, Deputy Secretary-General of China Accounting Society, and an Independent Director of Zhejiang Zhongda Company and other companies. Mr. Xia is a certified public accountant (non-practising member). He served as Head of Accounting Department of School of Economics and Management, Tsinghua University. He graduated from the Finance and Administration Science Research Institute of Ministry of Finance, specializing in accounting and was awarded a Ph. D. degree of Economics.

Liu Jipeng, aged 52, has served as an Independent Director of the Company since September 28, 2004. He also serves as Chairman of Beijing Standard Consulting Company, a professor of Law and Economic Research Center of China University of Political Science and Law. Mr. Liu is a certified accountant. He graduated from the Economic Department of the graduate School of China Academy of Social Science with a master's degree in economics.

Wu Yusheng, aged 52, has served as an Independent Director of the Company since May 11, 2005. He also serves as Deputy Information Engineer of Technology Department of State Grid Corporation of China. Mr. Wu is a professor-level senior engineer. Mr. Wu served as Deputy Director and Senior Engineer of Electric Grid Department of China Electric Power Research Institute and Deputy Chief Engineer, Deputy Dean and Dean of China Electric Power Research Institute and Deputy Chief Engineer and Director of Technology Department of State Grid Corporation of China. He graduated from Postgraduate School of China Electric Power Research Institute with a master's degree in electric power system and automation.

Yu Ning, aged 54, has served as an Independent Director of the Company since May 11, 2005. He is also President of All China Lawyers Association, a part-time professor at Peking University, a mentor for master postgraduates at Tsinghua University Law School and a practicing lawyer at Beijing Times Highland Law Firm. Mr. Yu is a lawyer. He served as Deputy Director and Director of the Central Commission for Discipline Inspection of the Communist Party of China. He graduated from Peking University specializing in economic law with a master degree.

Supervisors

The table below sets forth certain information concerning our supervisors as of April 10, 2008. The current term for all of our supervisors is three years, which will expire in May 2008.

Name	Age	Position with us
Guo Junming	43	Chairman of the Supervisory Committee
Yu Ying	53	Vice Chairman of the Supervisory Committee
Gu Jianguo	42	Supervisor
Shen Zongmin	54	Supervisor
Zou Cui	55	Supervisor
Wang Zhaobin	53	Supervisor

Guo Junming, aged 43, has served as Chairman of the Board of Supervisors of the Company since January 18, 2006. He also serves as Chief Accountant of Huaneng Group. Mr. Guo is a senior accountant. He served as Deputy Manager of the Finance Department of Huaneng Group, Vice President and President of China Huaneng Finance Corporation Limited ("Huaneng Finance"), President of Huaneng Capital Services, Deputy Chief Accountant and Manager of Finance Department of Huaneng Group. He graduated from Shanxi Finance and Economic Institute specializing in business finance and accounting

Yu Ying (Ms.), aged 53, has served as Vice Chairman of the Company's Supervisory Committee since May 11, 2005. She also serves as President of Dalian Municipal Investment Corporation. Ms. Yu is a senior economist. She served as Vice Director of Social Affair Department of Dalian Municipal Planning Commission and Director of Fixed Assets Investment Department of Dalian Municipal Development and Planning Commission, Assistant to President of Dalian International Trusts Investment Corporation and Chairman and President of Dalian State-owned Asset Management Limited Company. She graduated from Liaoning University of Finance and Economics, specializing in finance and credit, with a master degree in Economics.

Gu Jianguo, aged 42, has served a supervisor of the Company since November 17, 2005. He also serves as President of Nantong Investment & Management Limited Company. Mr. Gu is an economist. He served as Deputy Chief and Chief of General Department, Investment Department, Finance Department and Foreign Economic Affairs Department of the Nantong Municipal Planning Committee; Vice President of Nantong Ruici Investment Limited Company; General Secretary of the Party Committee and Executive Director of Ruici Hospital; President of Ruici (Maanshan) Development Limited Company; Chairman and President of Nantong Zhonghe Guarantee Limited Company and Chief Officer of Nantong Municipal Investment Management Centre and President of Nantong Xinhongji Investment Management Limited Company. He graduated from Nanjing Aviation University, holding a bachelor's degree.

Shen Zongmin, aged 54, has served as a supervisor of the Company since December 23, 2002. He also serves as President of Shantou Electric Power Development Corporation. Mr. Shan is a senior corporate culture specialist. He served as Vice President of Shantou Electric Power Development Corporation and Chairman of Shantou Power Development Stock Company; President of Shantou Electric Corporation and Chairman of Shantou Power Development Joint Stock Company. He graduated from Macau Technology University with a MBA degree.

Zou Cui (Ms.), aged 55, has served as a Supervisor and Senior Consultant of the Company since May 11, 2005. She also served as Senior Consultant of the Company. She also serves as Manager of the Human Resources Department of the Company. Ms. Zou is a senior engineer. She served as Deputy Chief and Chief of the Personnel Division of the Human Resources Department of HIPDC, Deputy Manager and Manager of the Human Resources Department and Deputy Manager of the Supervision and Auditing Department of the Company. She graduated from Xi'an Jiaotong University specializing in computer science, holding a bachelor's degree.

Wang Zhaobin, aged 53, has served as a Supervisor of the Company since May 11, 2005. He also serves as Manager of the Administration Department of the Company. Mr. Wang is a corporate culture specialist. He served as Chief of the Corporate Culture Division of the Human Resources Department, Chief of the Retirement Department of HIPDC, Deputy Secretary of the Party Committee, Secretary of the Discipline Inspection Committee and Chairman of the Labor Union of HIPDC Beijing Branch Company, and Manager of the Policy Division of the Company. He graduated from Beijing Municipal Communist Party School, specializing in economic management, holding a bachelor's degree.

Other Executive Officers

Liu Guoyue, aged 45, has served as Vice President of the Company since September 19, 2001. Mr. Liu is a senior engineer. He served as Deputy General Manager (Deputy Director) and General Manager (Director) of Huaneng Shijiazong branch company (Shang'an Power Plant) and Director of Huaneng Dezhou Power Plant. He graduated from Beijing University with a master degree (EMBA) in business administration.

Qu Xiaojun (whose resignation as Vice President was approved by the fifth session of the Board of Directors on January 3, 2008), aged 50, was then the Vice President of the Company. He served as Deputy Secretary of the Party Committee, Secretary of the Discipline Inspection Committee and Chairman of the Labor Union of HIPDC Beijing Branch Company, and Deputy Manager and Manager of the Personnel and Labor Department, Manager of the Human Resources Department and Chief of the Disciplinary Division of the Company. Before joining the Company, he was the Deputy Manager of Electricity Technology Research Institute Services Company and Supervising Officer of the Supervisory Division of Energy Department, and a Director of second Supervisory Division of Power Department. He graduated from Central Communist Party School specializing in economic management.

Huang Jian (whose resignation as Vice President and resignation as the secretary to the Board of Directors were approved at the 13th meeting of the fifth session of the Board of Directors on October 23, 2007 and December 20, 2007, respectively), aged 46, was the Vice President and Secretary to the Board of the Company. Mr. Huang is a senior accountant. He served as Deputy Division Chief and Division Chief of the Financial Affairs Department of the

Company, Chief Accountant of HIPDC Beijing Branch Company, Deputy Manager of the Financial Affairs Department of the Company, and Deputy Chief Accountant and Chief Accountant of the Company. Mr. Huang graduated from the Finance and Administration Science Research Institute of Ministry of Finance, specializing in accounting and was awarded a master's degree of Economics.

Lu Dan (Ms.) (whose resignation as Vice President was approved at the 13th meeting of the fifth session of the Board of Directors on August 14, 2007), aged 52, was the Vice President of the Company. Ms. Lu is a professor-level senior engineer. She served as Deputy Manager of the General Planning Department of Huaneng Power Generation Company, Assistant to Manager of the General Planning Department, Deputy Manager of the Planning Development Department, Deputy Manager of the General Planning Department of Huaneng Group, Manager of the Planning Development Department of the Company, and Assistant to President of the Company. She graduated from Beijing University of Chemical Technology with a bachelor's degree specializing in chemical engineering and machinery.

Fan Xiaxia, aged 46, has served as Vice President of the Company since March 7, 2006. Mr. Fan is a senior engineer. He served as Deputy Chief of the General Administration Division of the Engineering Department of HIPDC, Deputy Chief of the Construction Management Department, Deputy General Manager of the Company's Nantong Branch Company, Deputy Manager of the Construction Management Department of HIPDC, Deputy Manager and Manager of the International Co-operation and Business Department of the Company, Manager of the Construction Management Department of the Company, Assistant to President of the Company and General Manager of the Company's Zhejiang Branch Company. He graduated from Beijing Construction Institute with a bachelor degree specializing in civil architecture.

Gu Biquan, aged 51, the Vice President and secretary to the Board of Directors of the Company. He is an engineer. He was Deputy Chief and Chief of Securities and Investment Department, Chief and Deputy Manager of the Secretariate of the Administration Department of HIPDC, and Manager of Securities and Investment Department, Assistant to the President, Manager of Administration Department of the Company. He also served as Deputy Chief of Power Development Department of Huaneng Group, Vice President and secretary to the Board of Directors of HIPDC. He graduated from Beijing Broadcasting Television University, specializing in electronic engineering.

Zhou Hui (Ms.), aged 45, has served as Chief Accountant of the Company since March 7, 2006. Ms. Zhou is a senior accountant. She served as Deputy Chief and Chief of the Financial Management Division of the Finance Department of HIPDC, Deputy Manager and Manager of the Company's Finance Department, and Deputy Chief Accountant, Chief Accountant of the Company. She graduated from Renmin University of China with a master's degree in financial accounting.

B. Compensation for Directors, Supervisors and Executive Officers

The table below sets forth the compensation on individual basis for the directors, supervisors and other executive officers for the year ended December 31, 2007:

Name	Position with the Company	Remuneration paid by the Company in 2007 (RMB in thousand)
Directors		
Mr. Li Xiaopeng	Chairman of the Board of Directors	-
Mr. Huang Yongda	Vice Chairman of the Board of Directors	-
Mr. Huang Long	Vice Chairman of the Board of Directors	-
Mr. Na Xizhi	President	1,046
Mr. Wu Dawei	Director	791
Mr. Shan Qunying	Director	40

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Mr. Ding Shida	Director	40
Mr. Xu Zujian	Director	40
Mr. Liu Shuyuan	Director	40
Mr. Qian Zhongwei	Independent Director	60
Mr. Xia Donglin	Independent Director	60
Mr. Liu Jipeng	Independent Director	60
Mr. Wu Yusheng	Independent Director	60
Mr. Yu Ning	Independent Director	60
Sub-total:		2,297
Supervisors		
Ms. Guo Junming	Chairman of the Supervisory Committee	-
Ms. Yu Ying	Vice Chairman of the Supervisory Committee	40
Mr. Gu Jiangou	Supervisor	40
Mr. Shen Zongmin	Supervisor	40
Ms. Zou Cui	Supervisor	722

Name	Position with the Company	Remuneration paid by the Company in 2007 (RMB in thousand)
Mr. Wang Zhaobin	Supervisor	716
Sub-total		1,558
Other Executive officers		
Mr. Liu Guoyue	Vice President	905
Mr. Qu Xiaojun	Vice President (resigned in January 2008)	906
Mr. Huang Jian(1)	Vice President and Secretary to the Board (resigned in October 2007)	904
Ms. Lu Dan(2)	Vice President (resigned in August 2007)	555
Ms. Fan Xiaxia	Vice President	883
Mr. Gu Biquan(3)	Vice President and Secretary to the Board	151
Ms. Zhou Hui	Chief Accountant	880
Sub-total:		5,184
Total		9,039

Note:

- (1) The remuneration paid to Huang Jian was calculated from January 2007 to December 2007, in the capacity of Secretary to the Board.
- (2) The remuneration paid to Lu Dan was calculated from January 2007 to August 2007.
- (3) The remuneration paid fo Gu Biquan was calculated from November 2007 to December 2007.

The total remuneration paid to our directors, supervisors and executive officers is comprised of basic salaries and allowances, discretionary bonuses and employer's contributions to pension scheme. Of these, discretionary bonuses account for around 60% of the total remuneration, which are determined on the basis of their performance. In addition, directors and supervisors who are also officers or employees of us receive certain other benefits, such as subsidized or free health care services, housing and transportation, which are customarily provided by large enterprises in the PRC to their employees. Each of the Company's independent directors receives annual cash compensation of RMB60,000. We do not have any service contract with any director that provides for benefits upon termination of employment.

C. Board practice

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

operation efficiency and to make the decision-making process more rationalized.

The main duties of the Audit Committee are to assist our board in performing its statutory and fiduciary duties of supervising our accounting, financial reports, internal controls and compliance, including but not limited to, assisting our board in supervising (i) the integrity of our financial statements; (ii) our compliance with the applicable laws and regulations; (iii) the qualification and independence of our independent auditors and (iv) the performances of our independent auditors and internal auditing department.

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

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

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

The members of Audit Committee are Mr. Xia Donglin (Chairman), Mr. Qian Zhongwei, Mr. Liu Jipeng, Mr. Wu Yusheng and Mr. Yu Ning.

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

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

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

D. Employees

As of December 31, 2007, we employed 22,899 people. Of these, 289 are headquarters management staff, 15,988 are power plant personnel directly involved in the management and operation of the power plants and the remainder are maintenance personnel, ancillary service workers and others. Over 50% our work force graduated from university or technical college. As of December 31, 2005 and 2006, we had approximately 23,531 and 23,508 employees respectively.

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

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

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

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

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

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

E. Share ownership

None of our directors, supervisors or senior management owns any of our shares.

ITEM 7 Major Shareholders and Related Party Transactions

A. Major shareholders

Our outstanding ordinary shares consist of A Shares and H Shares, each with a par value of RMB1.00 per share. The following table set forth certain information regarding our major shareholders as of April 10, 2008.

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Shareholder	Number of shares	Approximate percentage in the total issued domestic share capital %	Approximate percentage in the total issued share capital %
Huaneng International Power Development Corporation	5,066,662,118	56.30	42.03
China Huaneng Group(1)	1,055,124,549	11.72	8.75
Hebei Provincial Construction Investment Company	603,000,000	6.70	5.00

Note: Huaneng Group indirectly holds 22% of our total issued shares through HIPDC, its (1) 51.98% owned subsidiary in addition to its direct shareholdings of 8.75% in us.

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

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

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

On April 19, 2006, we carried out our reform plan to convert all non-tradable domestic shares into tradable domestic shares. According to the plan, Huaneng Group and HIPDC transferred a total of 150 million shares to our shareholders of A Shares. As a result, the direct shareholdings of Huaneng Group and HIPDC decreased to 8.75% and 42.03%, respectively.

Before we were established in 1994, HIPDC and other seven promoters entered into the Shareholders' Agreement dated May 31, 1994 (the "Shareholders' Agreement") which, among other things, grants to HIPDC the right to vote all the shares owned by each of the other promoters so as to enable HIPDC to have majority voting rights in general meetings for so long as we are in existence. In addition, directors designated by HIPDC will have majority representation on our board of directors and each of the other promoters will have one representative designated by it appointed as a member of our board of directors. The Shareholders' Agreement also provides that for so long as we are in existence (i) HIPDC and the other signatories to the Shareholders' Agreement will maintain their combined shareholdings to ensure their collective majority control of us, (ii) HIPDC has certain priority rights to purchase the shares held by the other signatories to the Shareholders' Agreement and (iii) if HIPDC does not exercise its priority rights to purchase such shares, each of the signatories to the Shareholders' Agreement other than HIPDC has a priority right to purchase such shares on a pro rata basis and (iv) no shares may be sold or transferred unless their transferees agree to abide by the terms of the Shareholders' Agreement. As a result of the Shareholders' Agreement, HIPDC held 70.09% of the total voting rights of the outstanding shares and, subject to the Shareholders' Agreement, had the power to control the election of all of our directors and to direct our management and policies.

On May 12, 2006, HIPDC and other promoters (including the shareholders who assumed the rights and obligations of original promoters as a result of share transfer) entered into an amendment to the Shareholders' Agreement, pursuant to which, each promoter shall be entitled to exercise its own voting rights at the shareholders' general meeting.

Consequently, HIPDC currently holds 42.03% of our total voting rights. Since HIPDC's parent company, Huaneng Group, currently directly holds 8.75% of our total voting rights. HIPDC is able to exert control over us when acting in connert with Huaneng Group.

B. Related party transactions

Guarantees

The table below sets forth information on guarantees provided by Huaneng Group, HIPDC and the Company to the related parties in 2007 for the purposes of financing their operation, construction and renovation.

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Guarantor	Guarantee	Interest Rate (%)	Largest Amount Outstanding in 2007 (RMB)	Amount Outstanding As of March 31, 2008 (RMB)
Huaneng Group (Ultimate Parent of the Company)	The Company	6.36	344,402,183	263,857,539
	The Company	LIBOR + 0.075	419,968,938	310,880,004
	Taipingyi Hydropower(1)	5.75	250,000,000	N/A
	Mingtai Power Company(2)	5.75	130,000,000	N/A
	Kangding Hydropower(3)	6.16	110,000,000	N/A
	Kangding Hydropower(3)	6.16	178,000,000	N/A
	Kangding Hydropower(3)	5.75	218,000,000	N/A
	Jialingjiang Hydropower(4)	6.84	30,000,000	N/A
	Jialingjiang Hydropower(4)	6.12	50,000,000	N/A
	Jialingjiang Hydropower(4)	6.84	30,000,000	N/A
	Jialingjiang Hydropower(4)	6.16	20,000,000	N/A
	Jialingjiang Hydropower(4)	5.51	20,000,000	N/A
	Jialingjiang Hydropower(4)	5.51	30,000,000	N/A
	Jialingjiang Hydropower(4)	5.75	15,000,000	N/A
	Jialingjiang Hydropower(4)	5.75	15,000,000	N/A
	Jialingjiang Hydropower(4)	6.16	20,000,000	N/A
	Jialingjiang Hydropower(4)	6.16	20,000,000	N/A
	Jialingjiang Hydropower(4)	6.16	30,000,000	N/A
	Jialingjiang Hydropower(4)	6.16	40,000,000	N/A
	Jialingjiang Hydropower(4)	5.51	40,000,000	N/A
	Jialingjiang Hydropower(4)	5.51	30,000,000	N/A
		5.51	30,000,000	N/A

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Jialingjiang Hydropower(4)			
Jialingjiang Hydropower(4)	5.75	30,000,000	N/A
Jialingjiang Hydropower(4)	5.75	30,000,000	N/A
Jialingjiang Hydropower(4)	5.51	40,000,000	N/A
Fujiang Hydropower(5)	5.51	25,000,000	N/A
Fujiang Hydropower(5)	5.75	15,000,000	N/A
Fujiang Hydropower(5)	5.75	10,000,000	N/A
Fujiang Hydropower(5)	5.75	10,000,000	N/A
Fujiang Hydropower(5)	6.16	10,000,000	N/A
Fujiang Hydropower(5)	6.16	20,000,000	N/A
Fujiang Hydropower(5)	6.16	60,000,000	N/A
Fujiang Hydropower(5)	5.51	30,000,000	N/A
Fujiang Hydropower(5)	5.75	50,000,000	N/A
Fujiang Hydropower(5)	6.16	30,000,000	N/A
Fujiang Hydropower(5)	6.16	40,000,000	N/A
Fujiang Hydropower(5)	6.16	50,000,000	N/A
Fujiang Hydropower(5)	5.51	50,000,000	N/A
Fujiang Hydropower(5)	5.51	50,000,000	N/A
Fujiang Hydropower(5)	5.75	31,440,000	N/A
Fujiang Hydropower(5)	5.75	50,000,000	N/A
Fujiang Hydropower(5)	6.16	100,000,000	N/A
Fujiang Hydropower(5)	6.16	101,100,000	N/A
Fujiang Hydropower(5)	5.75	30,000,000	N/A
Fujiang Hydropower(5)	5.75	30,000,000	N/A
Fujiang Hydropower(5)	5.75	40,000,000	N/A
	6.16	50,000,000	N/A

Fujiang
Hydropower(5)

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Fujiang Hydropower(5)	6.16	40,000,000	N/A
Fujiang Hydropower(5)	6.16	20,000,000	N/A
Fujiang Hydropower(5)	6.16	50,000,000	N/A
Fujiang Hydropower(5)	6.16	50,000,000	N/A
Fujiang Hydropower(5)	5.51	20,000,000	N/A
Fujiang Hydropower(5)	5.51	10,000,000	N/A
Fujiang Hydropower(5)	5.51	10,000,000	N/A
Fujiang Hydropower(5)	5.51	20,000,000	N/A
Fujiang Hydropower(5)	5.51	10,000,000	N/A
Fujiang Hydropower(5)	5.51	30,000,000	N/A
Fujiang Hydropower(5)	5.51	30,000,000	N/A
Fujiang Hydropower(5)	5.75	10,000,000	N/A
Fujiang Hydropower(5)	5.75	20,000,000	N/A
Fujiang Hydropower(5)	5.75	20,000,000	N/A
Fujiang Hydropower(5)	5.75	10,000,000	N/A
Baoxinghe Power Company(6)	5.51	50,000,000	N/A
Baoxinghe Power Company(6)	5.51	10,000,000	N/A
Baoxinghe Power Company(6)	5.51	20,000,000	N/A
Baoxinghe Power Company(6)	5.51	50,000,000	N/A
Baoxinghe Power Company(6)	5.51	60,000,000	N/A
Baoxinghe Power Company(6)	5.51	80,000,000	N/A
Baoxinghe Power Company(6)	5.51	50,000,000	N/A
Baoxinghe Power Company(6)	5.51	30,000,000	N/A
Baoxinghe Power Company(6)	5.51	50,000,000	N/A
	5.51	20,000,000	N/A

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	Baoxinghe Power Company(6)			
	Baoxinghe Power Company(6)	5.51	50,000,000	N/A
	Baoxinghe Power Company(6)	5.51	25,000,000	N/A
	Baoxinghe Power Company(6)	5.51	50,000,000	N/A
	Baoxinghe Power Company(6)	5.51	30,000,000	N/A
	Baoxinghe Power Company(6)	5.51	50,000,000	N/A
	Baoxinghe Power Company(6)	5.51	50,000,000	N/A
	Baoxinghe Power Company(6)	5.51	50,000,000	N/A
	Luohuang Power Company(7)	5.95	941,712,945	592,533,739
	Qinbei Power Company(8)	LIBOR+0.43	100,397,570	70,189,999
	Qinbei Power Company(8)	LIBOR+0.3	70,317,857	50,145,714
	Pingliang Power Company(9)	5.51	752,000,000	—
	Pingliang Power Company(9)	5.51	256,750,000	—
HIPDC	The Company	5.95	605,387,652	380,915,029
	The Company	6.60	467,512,506	343,826,655
	The Company	6.60	186,115,075	139,410,925
	The Company	6.54	734,828,941	480,374,619
	The Company	5.95	699,436,233	502,961,355
The Company	Rizhao Power Company(10)	7.11	25,500,000	8,500,000
	Rizhao Power Company(10)	7.11	21,250,000	17,000,000
	Rizhao Power Company(10)	7.20	24,437,500	17,000,000
	Rizhao Power Company(10)	6.84	52,062,500	35,062,500

Notes:

- (1) Taipingyi Hydropower is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary of Huaneng Group and an associate of the Company from January 1, 2007.
- (2) Mingtai Power Company is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary of Huaneng Group and an associate of the Company from January 1, 2007.
- (3) Kangding Hydropower is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary of Huaneng Group and an associate of the Company from January 1, 2007.
- (4) Jialingjiang Hydropower is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary of Huaneng Group and an associate of the Company from January 1, 2007.
- (5) Fujiang Hydropower is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary of Huaneng Group and an associate of the Company from January 1, 2007.
- (6) Baoxinghe Power Company is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary of Huaneng Group and an associate of the Company from January 1, 2007.
- (7) Luohuang Power Company is a subsidiary of the Company.
- (8) Qinbei Power Company is a subsidiary of the Company.
- (9) Pingliang Power Company is a subsidiary of the Company.
- (10) Rizhao Power Company is an associate of the Company.

Loans

The table below sets forth the loans made by Huaneng Group and Huaneng Finance to the related parties in 2007 for the purposes of financing their operation, construction and renovation.

Lender	Borrower	Interest Rate (%)	Largest Amount Outstanding in 2007 (RMB)	Outstanding Balance as of March 31, 2008 (RMB)
Huaneng Group	The Company	5.02	2,000,000,000	2,000,000,000
(Ultimate Parent of the Company)	Yushe Power Company(1)	4.60	225,000,000	225,000,000
	Yushe Power Company(1)	5.67	75,000,000	75,000,000

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	Qinbei Power Company(2)	4.60	375,000,000	375,000,000
	Qinbei Power Company(2)	5.67	125,000,000	125,000,000
Huaneng Finance	Weihai Power Company(3)	5.27	130,000,000	—
(Subsidiary of Huaneng Group)	Weihai Power Company(3)	5.75	100,000,000	100,000,000
	Weihai Power Company(3)	6.72	-	50,000,000
	Taicang Power Company(4)	5.27	200,000,000	—
	Taicang Power Company(4)	6.16	200,000,000	200,000,000
	Taicang II Power Company(5)	5.51	490,000,000	—
	Taicang II Power Company(5)	6.56	490,000,000	490,000,000
	Huaiyin II Power Company(6)	5.27	200,000,000	—
	Huaiyin II Power Company(6)	5.43	200,000,000	-
	Huaiyin II Power Company(6)	6.72	-	200,000,000
	Yushe Power Company(1)	5.27	40,000,000	—
	Yushe Power Company(1)	5.91	40,000,000	40,000,000
	Yushe Power Company(1)	5.51	35,000,000	—
	Yushe Power Company(1)	5.51	137,700,000	—
	Yushe Power Company(1)	6.56	70,000,000	70,000,000
	Yushe Power Company(1)	6.56	67,700,000	67,700,000
	Yushe Power Company(1)	5.51	50,000,000	—
	Yushe Power Company(1)	6.32	30,000,000	30,000,000
	Qinbei Power Company(2)	5.27	120,000,000	—

Qinbei Power Company(2)	5.27	250,000,000	—
Qinbei Power Company(2)	5.02	100,000,000	—
Qinbei Power Company(2)	5.51	300,000,000	—
Qinbei Power Company(2)	5.75	230,000,000	—
Qinbei Power Company(2)	5.91	200,000,000	—
Yueyang Power Company(7)	5.51	100,000,000	—
Yueyang Power Company(7)	6.56	130,000,000	130,000,000
Pingliang Power Company(8)	5.27	110,000,000	—
Pingliang Power Company(8)	5.51	90,000,000	—
Pingliang Power Company(8)	5.51	200,000,000	—
Pingliang Power Company(8)	6.16	110,000,000	110,000,000
Pingliang Power Company(8)	6.56	290,000,000	290,000,000
Dongxiguan Hydropower(9)	5.18	20,000,000	N/A
Dongxiguan Hydropower(9)	5.67	30,000,000	N/A
Mingtai Power Company(10)	5.27	10,000,000	N/A
Mingtai Power Company (10)	5.51	12,000,000	N/A
Mingtai Power Company (10)	5.67	10,000,000	N/A
Mingtai Power Company (10)	5.67	20,000,000	N/A
Jinling Power Company(11)	5.75	100,000,000	100,000,000

Notes:

- (1) Yueshe Power Company is a subsidiary of the Company.
- (2) Qinbei Power Company is a subsidiary of the Company.
- (3) Weihai Power Company is a subsidiary of the Company.
- (4) Taicang Power Company is a subsidiary of the Company.
- (5) Taicang II Power Company is a subsidiary of the Company.
- (6) Huaiyin II Power Company is a subsidiary of the Company.
- (7) Yueyang Power Company is a subsidiary of the Company.
- (8) Pingliang Power Company is a subsidiary of the Company.
- (9) Dongxiguan Hydropower is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary of Huaneng Group and an associate of the Company from January 1, 2007.
- (10) Mingtai Power Company is a subsidiary of Sichuan Hydropower, which was a subsidiary of the Company as of December 31, 2006 and is a subsidiary of Huaneng Group and an associate of the Company from January 1, 2007.
- (11) Jinling Power Company is a subsidiary of the Company.

Lease Agreement

Pursuant to a leasing agreement between HIPDC and us signed on December 26, 2000, HIPDC agreed to lease Tianyin Mansion with a total area of 27,800 square meters to us for 5 years, and the annual rent is RMB25 million. The leasing agreement was effective retroactively as of January 1, 2000. In 2005, the leasing agreement was renewed for 5 years with the annual rent of RMB26 million.

T&T Service Agreements

Pursuant to the T&T Service Agreements, we agreed to pay service fees to HIPDC in relation to the provision of transmission and transformer facilities for certain of our power plants, power plants under expansion and acquired power plants which commence commercial operations after January 1, 1997 for a fixed fee equal to 12% of the original book value of the transmission and transformer facilities as set forth in the financial statements of HIPDC. In 2004, we entered into a Supplementary Agreement with HIPDC to lower the fees paid by Shang'an power plant to 6%. The total amount of service fees paid to HIPDC in 2007 was approximately RMB141 million.

Transactions with Huaneng Group

In January 2007, Huaneng Group made an additional capital contribution of RMB615 million to Sichuan Hydropower, thereby increasing its direct equity interest in Sichuan Hydropower from 40% to 51%, which reduced the Company's equity interest in Sichuan Hydropower from 60% to 49%. Huaneng Group, thus, replaced the Company as the controlling shareholder of Sichuan Hydropower. In addition, in January 2007, the Company acquired 5% additional equity interest in Qinbei Power Company from Huaneng Group with a consideration of RMB65.75 million in cash, thereby increased the Company's equity interest in Qinbei Power Company to 60%.

On March 25, 2008, we signed a letter of intent with Huaneng Group on the transfer of the equity of 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.

Acquisition from HIPDC in 2007

In December 2007, we entered into an agreement with HIPDC, pursuant to which we agreed to acquire from HIPDC 60% equity interest in Nanjing Jinling Power Plant for a consideration of RMB420 million. The acquisition took effect in the same month with the satisfaction of all the conditions, payment of the full amount of the consideration and the transfer of the related ownership and controlling power.

Entrusted Management Agreement with Huaneng Group and HIPDC

In 2007, we entered into an Entrusted Management Agreement with Huaneng Group and HIPDC in relation to the management of their thermal power plants (the "2007 Entrusted Management Agreement"). Our services include, comprehensive planned management, annual planned management, power operation and sale management, production management of power plants, fuel management, construction management, financial management, human resources and labor wages management, comprehensive affairs management, shareholding management and reporting/co-ordination management. The 2007 Entrusted Management Agreement has a term of 3 years. Upon the expiry of such agreement, unless any party intends otherwise, it will continue to be operational. The 2007 Entrusted Management Agreement may also be terminated by, inter alia, (i) Huaneng Group and/or HIPDC giving 30 days notice to us or (ii) we giving 90 days notice to Huaneng Group and/or HIPDC. By entering into the 2007 Entrusted Management Agreement, we will further accumulate management experience as a result of the expansion of our operation scale and set a precedent for large-scale and multi-entities entrusted management in the PRC. The 2007 Entrusted Management will also enable us to obtain direct knowledge of the development status of more power markets, thereby exploring new development opportunities.

Current deposits with Huaneng Finance

As of December 31, 2007, we placed with Huaneng Finance current deposits of approximately RMB4,942 million, which bore interest rates ranging from 0.72% to 1.53% per annum.

Coal purchases

In 2007, we paid RMB2,907.43 million and RMB8.56 million to Huaneng Energy & Communications Holdings Co., Ltd. ("HEC") and its subsidiaries and Zhalainguoer Coal Mining Company Ltd., which are the subsidiaries of Huaneng Group for coal purchase.

Continuous transactions with Huaneng Energy and Communications Holdings Co., Ltd.

On January 3, 2008, we entered into two framework agreements with HEC, including an agreement on purchase of auxiliary equipment and products involving an estimated total amount of approximately RMB900 million and an agreement on coal supply and transportation involving an estimated total amount of approximately RMB5.9 billion. HEC is 100% owned by Huaneng Group. These agreements became effective retrospectively from January 1, 2008 and will expire on December 31, 2008.

Continuous Transactions with Xi'an Thermal Power Research Institute Co., Ltd.

On January 3, 2008, we entered into two framework agreements with Xi'an Thermal Power Research Institute Co., Ltd. ("Xi'an Thermal"), including an agreement on purchase of auxiliary equipment and products involving an estimated total amount of approximately RMB156 million and an agreement on technical

services and project contracting involving an estimated total amount of approximately RMB275 million. Xi'an Thermal is 52% owned by Huaneng Group. The agreement became effective retrospectively from January 1, 2008 and will expire on December 31, 2008.

Continuous Transactions with Shandong Rizhao Power Limited Company

On January 3, 2008, we entered into a framework agreement with Shandong Rizhao Power Limited Company ("Shandong Rizhao") on provision of coal purchase and transportation agency services involving an estimated total amount of approximately RMB110 million. Shandong Rizhao is 46% owned by Huaneng Group. The agreement became effective retrospectively from January 1, 2008 and will expire on December 31, 2008.

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

C. Interests of experts and counsel

Not applicable.

ITEM 8 Financial Information

A. Consolidated statements and other financial information

See pages F-1 to F-66.

Legal proceedings

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

Dividend distribution policy

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

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

Dividends may be paid only out of our distributable profits (less allocation to the statutory funds of 10% of our net income determined in accordance with PRC GAAP) and may be subject to any applicable PRC withholding tax. Our Articles of Association limit our distributable profits to the lower of the amount determined in accordance with PRC GAAP and IFRS. Subject to the above, we expect to carry a positive, balanced and stable dividend distribution policy.

Our board has proposed a final dividend of RMB0.30 per ordinary share for the year ended December 31, 2007, which is equivalent to RMB12.0 per ADS. The total dividend to be paid amounted to approximately RMB3.62 billion.

B. Significant Changes

The New Enterprise Income Tax Law became effective on January 1, 2008 and superseded the Income Tax Law for Foreign Invested Enterprises and Foreign Enterprises of the PRC and the Provisional Regulations on Enterprise Income Tax of the PRC. The New Enterprise 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 have been subject to a lower tax rate of 25% starting on January 1, 2008. With regard to our power plants currently entitled to a reduced corporate income tax rate of 15% prior to January 1, 2008, their effective tax rates are being gradually increased to the uniform tax rate of 25% within a five-year transition period commencing on January 1, 2008. Although the State Council of 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.

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.

ITEM 9 The Offer and Listing

A. Offer and listing details and markets

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

		Closing Price Per ADS	
		High (US\$)	Low (US\$)
2003		71.35	31.36
2004		86.91	27.30
2005		31.24	26.21
2006		36.35	24.05
2007		57.12	33.19
2006	First Quarter	28.59	25.92
	Second Quarter	30.85	24.05
	Third Quarter	28.43	24.86
	Fourth Quarter	36.35	28.62
2007	First Quarter	40.45	32.01
	Second Quarter	46.45	35.58
	Third Quarter	53.00	37.83
	Fourth Quarter	57.12	37.83
2007	October	57.12	47.09
	November	46.37	37.83
	December	45.36	38.84
2008	January	41.55	32.60
	February	36.25	32.50
	March	32.25	24.86
	April (up to April 15)	32.69	27.31

Source: Reuters

Each ADS represents 40 Overseas Listed Foreign Shares. As of March 31, 2008, there were 237 registered holders of American Depositary Receipts evidencing ADS.

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

		Closing Price Per H shares	
		High (HK\$)	Low (HK\$)
2003		13.20	6.05
2004		13.45	6.05
2005		6.10	5.10
2006		7.00	4.70
2007		10.8	6.51
2006	First Quarter	5.55	5.00
	Second Quarter	5.95	4.70
	Third Quarter	5.68	4.88
	Fourth Quarter	7.00	5.59
2007	First Quarter	7.77	6.51
	Second Quarter	8.95	6.85
	Third Quarter	10.74	7.24
	Fourth Quarter	10.8	7.41
2007	October	10.8	9.12

		Closing Price Per H shares	
		High	Low
		(HK\$)	(HK\$)
	November	9.22	7.41
	December	8.78	7.68
2008	January	8.21	6.2
	February	7.04	6.33
	March	6.27	4.65
	April (up to April 15)	6.29	5.33

Source: Reuters

As of March 31, 2007, 2008, there were 485 registered holders of H Shares.

ITEM 10 Additional Information

A. Share capital

Not applicable.

B. Memorandum and articles of association

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

Objects and Purposes

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

Directors

Our directors shall be elected at our shareholders' general meeting. Because the shares do not have cumulative voting rights, a holder of a majority of the shares is able to elect all of the directors. Our directors shall be elected for a term of three years and may serve consecutive terms upon re-election, except that independent directors may only serve a maximum of two consecutive terms of six years. Our directors are not required to hold any shares in us, and there is no age limit requirement for the retirement or non-retirement of our directors.

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

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

We are prohibited from making loans or providing guarantees to our directors and their associates except where such loan or guarantee is made or provided under a service contract as approved by our

shareholders at the shareholders' general meeting and to meet expenditure requirement incurred or to be incurred by the director for the purposes of the Company or for the purpose of enabling the director to perform his or her duties properly.

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

Dividends

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

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

- recovery of losses, if any;
- allocations to the statutory surplus reserve fund; and
- allocations to a discretionary surplus reserve fund.

The allocation to the statutory surplus reserve fund is 10% of our net income determined in accordance with the PRC accounting rules.

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

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

Dividends payments may be subject to PRC withholding tax.

Voting Rights and Shareholders' Meetings

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

- where the number of directors is less than the number required by the PRC Company Law or two-thirds of the number specified in our Articles of Association;
- where our unrecovered losses reach one-third of the total amount of our share capital;

- where shareholder(s) holding 10% or more of our voting rights request(s) in writing the convening of an extraordinary general meeting; or
- whenever our board deems necessary or our supervisory committee so requests.

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

All shareholders' meetings must be convened by our board by written notice given to shareholders not less than 45 days before the meeting. Based on the written replies received by us 20 days before a shareholders' meeting, we shall calculate the number of voting shares represented by shareholders who have

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

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

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

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

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

The following decisions must be adopted by special resolution:

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

impact on us and should be adopted by special resolution.

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

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

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

Liquidation Rights

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

Further Capital Call

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

Increases in Share Capital and Preemptive Rights

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

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

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

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

Restrictions on Large or Controlling Shareholders

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

- (1) to relieve a director or supervisor from his or her duty to act honestly in our best interests;
- (2) to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of our assets in any way, including, without limitation, opportunities which may benefit us; or
- (3) to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of the individual rights of other shareholders, including, without limitation, rights to distributions and voting rights (save according to a restructuring of our company which has been submitted for approval by the shareholders in a general meeting in accordance with our Articles of Association).

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

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

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

Disclosure

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

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

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

Sources of Shareholders' Rights

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

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

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

Enforceability of Shareholders' Rights

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

The Company Law, as amended in October 2005 and effective in January 2006, has granted shareholders with the rights to bring derivative suits. Within the Company Law, Shareholders holding more than 1 percent of the shares of the company for more than 180 consecutive days are entitled to request the supervisory committee (in terms of directors and senior management) or the board of directors (in terms of

supervisors) to bring legal proceedings, or bring legal proceedings in their own name on behalf of the company where it is in emergency and the Company will be subject to irreparable loss if not to do so, against directors, supervisors or senior management who fail to comply with the laws and regulations or the company's Articles of Association in the course of performing their duties and cause loss to the company;

Our Articles of Association provide that all differences or claims:

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

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

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

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

Restrictions on Transferability and the Share Register

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

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

- a fee (for each instrument of transfer) of HK dollar 2.50, or any higher fee as agreed by the Hong Kong Stock Exchange, has been paid to us;
- the instrument of transfer only involves H Shares;
- the stamp duty chargeable on the instrument of transfer has been paid;
- the relevant share certificate and upon the reasonable request of the board of directors, any evidence in relation to the right of the transferor to transfer the shares have been submitted;

- if it is intended to transfer the shares to joint owners, then the maximum number of joint owners must not exceed four;
- we do not have any lien on the relevant shares.

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

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

C. Material contracts

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

D. Exchange controls

The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. We may undertake current account foreign exchange transactions without prior approval from the State Administration of Foreign Exchange or its local branch offices by performing certain required procedures. The PRC government has stated publicly that it intends to make the Renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of Renminbi to foreign currency.

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

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

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

indicated:

Period	End	Noon Buying Rate (RMB per US\$1.00)		
		Average(1)	High	Low
2003	8.2767	8.2772	8.2800	8.2769
2004	8.2765	8.2767	8.2774	8.2764
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.6052	8.0300	7.7232
	October	7.4682	7.5016	7.5158
	November	7.3850	7.4212	7.4582
	December	7.2946	7.3682	7.4120
2008	January	7.1818	7.2405	7.2946
	February	7.1115	7.1644	7.1973
	March	7.0120	7.0722	7.1110
	April (up to April 15)	7.0116	7.0049	6.991

Note: Annual averages are calculated from month-end rates. Monthly averages are
(1) calculated using the average of the daily rates during the relevant period.

E. Taxation

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

PRC tax considerations

Tax on dividends

Individual investor

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

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

Enterprises

In accordance with the New Corporate Income Tax Law that became effective on January 1, 2008, dividends derived from the revenues accumulated from January 1, 2008 and are paid by PRC companies to non-resident enterprises are generally subject to a PRC withholding tax levied at a rate of 10% unless exempted or reduced pursuant to an applicable double-taxation treaty or other exemptions. Dividends paid by PRC companies to resident enterprises, including enterprises established under the laws of non-PRC jurisdictions but whose "de facto management body" is located in the PRC, are not subject to any PRC withholding tax, unless the dividends are derived from the publicly traded shares which have not been held continuously by the resident enterprises for twelve months. Nevertheless, the implementations of such rules still remain uncertain.

Capital gains tax on sales of shares

As discussed above, gains realized upon the sale of overseas shares issued by PRC companies by foreign individual investors are not subject to tax on capital gains.

In accordance with the New Corporate Income Tax Law, capital gains realized by foreign enterprises which are non-resident enterprises in China upon the sale of overseas shares are generally subject to a PRC withholding tax levied at a rate of 10%, unless exempted or reduced pursuant to an applicable double-taxation treaty or other exemptions. The capital gains realized by resident enterprises, including enterprises established under the laws of

non-PRC jurisdictions but whose "de facto management body" is located in the PRC, upon the sales of oversea shares are subject to the PRC corporate income tax.

Tax treaties

Non-PRC Investors residing in countries which have entered into double-taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to such Foreign Holders of us. The PRC currently has double-taxation treaties with a number of countries, including Australia,

Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Stamp tax

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

Taxation of the Company

Income tax

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.

Value-added tax

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

United States federal income tax considerations

The following is a summary of United States federal income tax considerations that are anticipated to be material for US Holders (as defined below) who purchase H shares or ADSs of the Company. This summary is based upon existing United States federal income tax law, which is subject to change, possible with retroactive effect. This summary does not discuss all aspects of United States federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as investors subject to special tax rules including:

financial institutions, insurance companies, broker-dealers, tax-exempt organizations, and, except as described below, non-US Holders, or to persons that will hold H shares or ADSs as part of a straddle, hedge, conversion, or constructive sale transaction for United States federal income tax purposes or that have a functional currency other than the United States Dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not discuss any foreign, state, or local tax consideration. This summary assumes that investors will hold their H shares or ADSs as "capital assets" (generally, property held for investment) under the United States Internal Revenue Code. Each prospective investor is urged to consult its tax advisor regarding the United States federal, state, local, and foreign income and other tax considerations of the purchase, ownership, and disposition of H shares or ADSs.

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

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

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

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

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

US holders

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

Dividends

Any cash distributions paid by the Company out of earnings and profits, as determined under United States federal income tax principles, will be subject to tax as ordinary dividend income and will be includible in the gross income of a US Holder upon receipt. Cash distributions paid by the Company in excess of its earnings and profits will be a return of capital to the extent of the US Holder's adjusted tax basis in its shares or ADSs, which will not be subject to tax. Any excess will be treated as gain from the sale or exchange of a capital asset which will be treated as discussed below. Dividends paid in Hong Kong Dollar will be includible in income in a United States Dollar amount based on

the United States Dollar - Hong Kong Dollar exchange rate prevailing at the time of receipt of such dividends by the depository, in the case of ADSs, or by the US Holder, in the case of H shares held directly by such US Holder. A non-corporate holder of ADS or shares of Common Stock will generally be subject to tax on such dividend income at a maximum U.S. federal rate of 15% rather than the marginal tax rates generally applicable to ordinary income. Dividends received on H shares or ADSs will not be eligible for the dividends received deduction allowed to corporations. Any subsequent gain or loss in respect of such Hong Kong Dollar arising from exchange rate fluctuations will be ordinary income or loss. This gain or loss will generally be treated as United States source income for United States foreign tax credit limitation purposes. If the Depository converts the Hong Kong Dollar to U.S. Dollar on the date it receives such Hong Kong Dollar, United States persons will not recognize any such gain or loss.

Dividends received on H shares or ADSs will be treated, for United States federal income tax purposes, as foreign source income. A US Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on H shares or ADSs. US Holders who do not elect to claim a foreign tax credit for foreign income tax withheld may instead claim a deduction, for United States federal income tax purposes, in respect of such withholdings, but

only for a year in which the US Holder elects to do so for all creditable foreign income taxes. In certain circumstances, a US Holder may not claim a foreign tax credit (and instead may claim a deduction) for foreign taxes imposed on the payment of a dividend if the US Holder:

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

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

Sale or other disposition of H shares or ADSs

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

PFIC considerations

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

Non-US holders

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

- the dividends received or gain recognized on the sale of H shares or ADSs by such person are treated as effectively connected with the conduct of a trade or business by such person in the United States as determined under United States

federal income tax law; or

- in the case of gains recognized on a sale of H shares or ADSs by an individual, such individual is present in the United States for 183 days or more and certain other conditions are met.

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

F. Dividends and paying agents

Not applicable.

G. Statement by experts

Not applicable.

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H. Documents on display

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

I. Subsidiary information

Not applicable.

J. Comparison of New York Stock Exchange corporate governance rules and China corporate governance rules for listed companies

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

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

Director Independence

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

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

To empower non-management directors to serve as a more effective check on

No similar requirements.

management, the non-management directors of each listed company must meet at regularly scheduled executive sessions without management.

Nominating/Corporate Governance Committee

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

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

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

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

Compensation Committee

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

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

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

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

(1) review and approve the corporate goals associated with CEO's compensation, evaluate the performance of the CEO in fulfilling these goals, and based on such evaluation determine and approve the CEO's compensation level;

(2) make recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity-based plans that are subject to board approval;

(3) produce a committee report on executive compensation as required by the SEC to be included in the annual proxy statement or annual report filed with the SEC.

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

Audit Committee

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 of Exchange Act. It must have a minimum of three members, and all audit

The board of directors of a listed company can, through the resolution of the shareholders' meeting, establish an audit committee composed entirely of directors,

committee members must satisfy the requirements for independence set forth in Section 303A.02 of NYSE Corporate Governance Rules as well as the requirements of Rule 10A-3b (1) of the Exchange Act.

of which the independent directors are the majority and act as the convener, and, at minimum, one independent director is an accounting professional.

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

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

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

Each listed company must have an internal audit department.

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

Corporate governance guidelines

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

Code of ethics for directors, officers and employees

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

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

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

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

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

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

No similar requirements.

ITEM 11 Quantitative and Qualitative Disclosures About Market Risk

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

Equity price risk

The Company and its subsidiaries are exposed to equity security risk because of investments held by the Company and its subsidiaries and classified on the balance sheets either as available-for-sale or at fair value through profit or loss. The exposure of such a risk is presented on the balance sheets.

Detailed information relating to the available-for-sale investments is disclosed in Note 13 to the financial statements. Being a strategic investment in nature, the Company has a director in the Board of the investee and exercises influence in safeguarding the interest. The Company and its subsidiaries also closely monitor the pricing trends in the open market in determining their long-term strategic stakeholding decisions.

Foreign exchange rate risk

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

The exchange rate of Renminbi to foreign currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including US dollars, has historically been set by the People's Bank of China. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the US dollar. Under the new policy, the Renminbi is permitted to fluctuate within a band against a basket of certain foreign currencies. This change in policy resulted initially in an approximately 2.0% appreciation in the value of the Renminbi against the US dollar. Since the adoption of this new policy, the value of Renminbi against the US dollar has fluctuated on a daily basis within narrow ranges, but overall has further strengthened against the US dollar. There remains significant international pressure on the PRC government to further liberalize its currency policy. We cannot assure you that any future movements in the exchange rate of the Renminbi against the US dollar and other currencies will not adversely affect our results of operations and financial conditions. The following table provides information, by maturity dates, regarding our foreign currency sensitive financial instruments, which consist of cash and cash equivalents, short-term and long-term debt obligations and capital commitments as of December 31, 2007 and average interest rates for the year ended December 31, 2007.

(RMB expressed in million, except interest rate)

As of December 31, 2007

	Expected Maturity Date						Total recorded value	Fair value
	2008	2009	2010	2011	2012	Thereafter		
On-balance sheet financial instruments								
Cash and cash equivalents:								
In US Dollar	1	-	-	-	-	-	1	1
Debts								
Fixed rate bank loans								
Fixed rate bank loans (US Dollar)	701	701	693	692	169	95	3,051	3,134
Average interest rate	6.217%	6.227%	6.260%	6.465%	6.360%	6.360%		
Fixed rate bank loans (Euro)								
Fixed rate bank loans (Euro)	57	57	57	57	57	365	650	547
Average interest rate	2.000%	2.000%	2.000%	2.000%	2.000%	2.000%		
Variable rate bank and other loans								
Variable rate bank and other loans (US Dollar)	67	67	67	57	46	116	420	420
Average interest rate	5.165%	5.160%	5.151%	5.145%	5.145%	5.145%		
Variable rate other loans (JPY)								
Variable rate other loans (JPY)	15	15	15	8	-	-	53	53
Average interest rate	5.800%	5.800%	5.800%	5.800%				
Capital commitments								
Capital commitments (US Dollar)	35	33	2	-	-	-	70	70

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

The outstanding balances of the Company's loans denominated in foreign currency has decreased continually as a result of repayments of the loans by the Company according to agreed-upon repayment schedules. The loans denominated in US dollars decreased from RMB5.548 billion as of December 31, 2005 to RMB3.471 billion as of December 31, 2007; the loans denominated in JPY decreased from RMB90 million as of December 31, 2005 to RMB53 million as of December 31, 2007; the loans denominated in Euros decreased from RMB702 million as of December 31, 2005 to RMB650 million as of December 31, 2007. As a result, the associated foreign exchange risk to which the Company is exposed has decreased.

Interest rate risk

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

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

The following table provides information, by maturity date, regarding our interest rate sensitive financial instruments, which consist of fixed rate loans, variable rate loans, short-term bonds and long-term bonds as of December 31, 2007 and average interest rates for the year ended December 31, 2007.

(RMB expressed in millions, except interest rate)

As of December 31, 2007

	Expected Maturity Date						Total recorded value	Fair value
	2008	2009	2010	2011	2012	Thereafter		
Debts								
Fixed rate								
shareholder's, bank and								
other loans	15,506	9,616	8,608	3,660	2,551	8,612	48,553	48,114
Average interest rate	6.017%	5.986%	5.922%	5.789%	5.697%	5.766%		
Variable rate bank and other loans								
	82	82	82	65	46	116	473	473
Average interest rate	5.227%	5.207%	5.173%	5.145%	5.145%	5.145%		
Short-term bonds								
	5,065	-	-	-	-	-	5,065	5,065
Average interest rate	4.258%	-	-	-	-	-		
Long-term bonds								
	-	-	-	-	981	4,905	5,886	5,886
Average interest rate	6.143%	6.143%	6.143%	6.143%	6.143%	6.145%		

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

As of December 31, 2007, the Company's floating rate loans denominated in foreign currency amounted to RMB473 million, accounting for approximately 11.33% of the total foreign loans, and the average interest rate level was relatively low, which is six-month US dollar LIBOR plus 16 basis points. In 2007, Federal Reserve of United States began to decrease the federal funds rate (FFR) due to unfavorable economic conditions. It seems that Federal Reserve of United States has accelerated the pace of decreasing FFR in the first several months of 2008 to avoid more significant recession caused by the sub-prime crisis. With only a small portion of loans denominated in foreign currency bearing floating interest rates, the Company is exposed to relatively low risk of interest rate increases. The Company has paid special attention to the trend of international interest rate market by keeping up with the market conditions and predicting the future trend, and has made efforts to explore the feasibility of risk management by application of derivative financial instruments. The Company expects to implement the relevant plan according to its internal approval procedures and use interest rate swap and other derivative financial instruments to control its interest rate risk upon appropriate time.

As the Company repaid the loans in accordance with the repayment agreements, the balance of floating rate loans decreased from RMB702 million as of December 31, 2005 to RMB473 million as of December 31, 2007. As a result, the associated interest rate risk related to variable rate bank and other loans to which the Company is exposed has decreased. The balance of fixed rate loans increased from RMB37.907 billion as of December 31, 2005 to RMB48.553 billion as of December 31, 2007 to cover the expenditure on construction and acquisitions. As a result of the increased scale of the fixed rate loans and the issuance of fixed rate bonds, the interest rate risk related to fixed rate

loans and bonds has increased.

For other detailed information of the market risk, please refer to the Note 3(a) to the "Financial Statements."

ITEM 12 Description of Securities Other than Equity Securities

Not applicable.

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PART II.

ITEM 13 Defaults, Dividend Arrearages and Delinquencies

None.

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

None.

ITEM 15 Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2007 (the "Evaluation Date"), the end of the fiscal year covered by this annual report. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our chairman of the board, or principal executive officer, and chief accountant, or principal financial officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission as of the end of the period covered by this annual report. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2007 at providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The effectiveness of the Company's internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report which appears herein.

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

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2007, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16 Reserved

ITEM 16A Audit Committee Financial Expert

The Board of Directors has determined that Mr. Xia Donglin and Mr. Liu Jipeng qualify as Audit Committee Financial Experts in accordance with the terms of Item 16A of Form 20-F. Mr. Xia Donglin and Mr. Liu Jipeng were respectively appointed as our independent non-executive directors on May 11, 2005. See "Item 6 Directors, Senior Management and Employees — A. Directors, members of the supervisory committee and senior management".

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ITEM 16B Code of Ethics

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

ITEM 16C Principal Accountant Fees and Services

PricewaterhouseCoopers has served as our independent public auditors for each of the fiscal years in the two-year period ended December 31, 2007, for which audited consolidated financial statements appear in this annual report on Form 20-F.

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

(RMB million)	For the year ended December 31,	
	2007	2006
Audit fees	29.9	42.4
Audit-related fees	0.5	1.5
Tax fees	-	-
All other fees	-	-
Total	30.4	43.9

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

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

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

Audit Committee Pre-approval Policies and Procedures

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

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

ITEM 16D Exemptions from the Listing Standards for Audit Committees

Not applicable.

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

Not applicable.

ITEM 17 Financial Statements

See pages F-1 through F-66 following Item 19.

ITEM 18 Financial Statements

Not applicable.

ITEM 19 Exhibit

8 A list of subsidiaries.

12.1 Certifications of Principal Executive Officer pursuant to Rule 13a-14(a) promulgated under the U.S. Securities Exchange Act of 1934.

12.2 Certifications of Principal Financial Officer pursuant to Rule 13a-14(a) promulgated under the U.S. Securities Exchange Act of 1934.

13.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Report of Independent Registered Public Accounting Firm

To the shareholders of Huaneng Power International, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in equity and cash flows present fairly, in all material respects, the financial position of Huaneng Power International, Inc. (the "Company") and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Item 15 appearing on page 77 of the Annual Report on Form 20-F-2007. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2007 and 2006). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
March 25, 2008

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HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Prepared in accordance with International Financial Reporting Standards)

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

	Note	For the year ended December 31,			
		2007 RMB	US\$	2006 RMB	2005 RMB
Operating revenue		49,767,849	6,813,220	44,301,403	40,190,004
Sales tax		(139,772)	(19,134)	(148,057)	(113,475)
Operating expenses					
Fuel		(27,790,310)	(3,804,494)	(22,608,151)	(21,202,952)
Maintenance		(1,534,016)	(210,007)	(1,306,888)	(1,165,374)
Depreciation		(7,225,964)	(989,235)	(6,719,158)	(6,167,692)
Labor		(2,786,109)	(381,418)	(2,886,767)	(2,487,098)
Service fees on transmission and transformer facilities of HIPDC	7(b)	(140,771)	(19,272)	(140,771)	(141,102)
Others		(2,228,596)	(305,095)	(1,933,200)	(1,903,345)
Total operating expenses		(41,705,766)	(5,709,521)	(35,594,935)	(33,067,563)
Profit from operations		7,922,311	1,084,565	8,558,411	7,008,966
Interest income		53,527	7,328	51,910	53,685
Interest expense		(2,132,122)	(291,888)	(1,591,033)	(1,426,609)
Exchange gain and bank charges, net		204,134	27,946	67,819	248,533
Total financial expenses, net		(1,874,461)	(256,614)	(1,471,304)	(1,124,391)
Share of profits of associates	11	586,323	80,268	790,629	644,376
Investment income, net		127,281	17,425	128,614	60,872
Gain / (Loss) on disposals of investments	6 & 13	545,230	74,642	(19)	-
Other income, net	5	12,617	1,727	10,442	2,385
Profit before income tax expense	6	7,319,301	1,002,013	8,016,773	6,592,208
Income tax expense	32	(838,270)	(114,760)	(1,127,699)	(1,044,297)
Profit for the year		6,481,031	887,253	6,889,074	5,547,911
Attributable to:					

Equity holders of the Company		6,161,127	843,459	6,071,154	4,871,794
Minority interests		319,904	43,794	817,920	676,117
		6,481,031	887,253	6,889,074	5,547,911
Dividends paid		3,375,507	462,107	3,013,846	3,022,096
Proposed dividend	21	3,616,615	495,115	3,375,507	3,013,846
Proposed dividend per share (expressed in RMB per share)	21	0.30	0.04	0.28	0.25
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)					
- Basic	33	0.51	0.07	0.50	0.40
- Diluted	33	0.51	0.07	0.50	0.40

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

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND 2006
(Prepared in accordance with International Financial Reporting Standards)

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

	Note	As of December 31,		2006 RMB
		2007 RMB	US\$	
ASSETS				
Non-current assets				
Property, plant and equipment, net	10	90,125,919	12,338,242	90,444,225
Investments in associates	11	8,731,490	1,195,341	5,418,213
Available-for-sale investments	13	3,462,158	473,970	1,458,759
Land use rights	14	2,269,208	310,655	2,013,480
Deferred income tax assets	29	211,654	28,975	98,429
Goodwill	15	555,266	76,016	671,796
Other non-current assets		389,375	53,304	269,404
Total non-current assets		105,745,070	14,476,503	100,374,306
Current assets				
Inventories, net	16	2,319,290	317,511	2,121,489
Other receivables and assets, net	17	822,131	112,550	615,488
Accounts receivable, net	18	7,876,318	1,078,268	7,315,683
Financial assets at fair value through profit or loss		-	-	100,180
Due from other related parties	7(a)(iv) & 17	560	77	621
Restricted cash		220,495	30,186	203,863
Cash and cash equivalents	34(a)	7,312,265	1,001,049	3,207,192
Total current assets		18,551,059	2,539,641	13,564,516
Total assets		124,296,129	17,016,144	113,938,822

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONT'D)
AS OF DECEMBER 31, 2007 AND 2006
(Prepared in accordance with International Financial Reporting Standards)

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

	Note	As of December 31,		2006 RMB
		2007 RMB	US\$	
EQUITY AND LIABILITIES				
Capital and reserves attributable to equity holders of the Company				
A shares, par value of RMB1.00 each	19	9,000,000	1,232,100	9,000,000
Overseas listed foreign shares, par value of RMB1.00 each	19	3,055,383	418,282	3,055,383
Additional paid-in capital		8,988,973	1,230,591	8,988,973
Dedicated capital	20	6,096,100	834,556	5,454,467
Fair value gains from available-for-sale investment, net of tax	13 & 29	1,674,449	229,232	998,825
Retained earnings				
Proposed dividend	21	3,616,615	495,115	3,375,507
Others		14,497,060	1,984,648	12,584,354
		46,928,580	6,424,524	43,457,509
Minority interests		5,151,062	705,181	7,151,183
Total equity		52,079,642	7,129,705	50,608,692
NON-CURRENT LIABILITIES				
Long-term loans from Huaneng Group	22	2,800,000	383,320	2,800,000
Long-term bank loans	22	30,548,338	4,182,069	32,065,840
Other long-term loans	22	90,309	12,363	232,779
Long-term bonds	23	5,885,615	805,741	-
Deferred income tax liabilities	29	1,092,545	149,569	1,078,897
Other non-current liabilities	24	423,119	57,925	309,930
Total non-current liabilities		40,839,926	5,590,987	36,487,446
CURRENT LIABILITIES				
Accounts payable and other liabilities	25	8,849,363	1,211,480	8,221,787
Taxes payables	26	955,334	130,785	1,191,783
Dividends payable		12,150	1,663	-
Due to Huaneng Group	7(a)(iv)	190	26	44,592
Due to HIPDC	7(a)(iv)	80,140	10,971	79,730
Due to associates	7(a)(v)	8,254	1,130	83,512
Due to other related parties	7(a)(iv)	303,122	41,497	65,795

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Salary and welfare payables		213,403	29,215	584,043
Short-term bonds	27	5,064,690	693,356	5,077,577
Short-term loans	28	11,670,400	1,597,678	8,161,910
Current portion of long-term bank loans	22	4,183,391	572,706	3,140,393
Current portion of other long-term loans	22	36,124	4,945	191,562
Total current liabilities		31,376,561	4,295,452	26,842,684
Total equity and liabilities		124,296,129	17,016,144	113,938,822

These consolidated financial statements have been approved for issue by the Board of Directors on March 25, 2008.

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

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB)

	Attributable to equity holders of the Company						Retained earnings	Minority interests	Total
	Share capital	Additional paid-in capital	Dedicated capital		Available-for-sale investment revaluation reserve	Sub-total			
			Statutory and discretionary surplus reserve funds	Statutory public welfare fund					
Balance as of January 1, 2005	12,055,383	8,972,184	2,202,689	1,863,281	4,065,970	-	12,433,102	3,266,393	4
Changes in equity for the year ended December 31, 2005									
Fair value gains from available-for-sale investment – gross	-	-	-	-	-	749,369	-	-	-
Fair value gains from available-for-sale investment – tax	-	-	-	-	-	(112,405)	-	-	-
Net income recognized directly in equity	-	-	-	-	-	636,964	-	-	-
Profit for the year ended December 31, 2005	-	-	-	-	-	-	4,871,794	676,117	-
Total recognized income and expense for the year	-	-	-	-	-	636,964	4,871,794	676,117	-
Minority interests arising on business combinations	-	-	-	-	-	-	-	1,979,219	-
	-	-	-	-	-	-	-	596,064	-

Net capital injection from minority shareholders of subsidiaries									
Dividends waived by a shareholder of an associate	-	15,923	-	-	-	-	-	-	-
Dividends relating to 2004	-	-	-	-	-	-	(3,013,846)	(196,992)	(
Dividends relating to 2005	-	-	-	-	-	-	-	(214,088)	
Transfer from statutory public welfare fund to discretionary surplus reserve fund	-	-	3,473	(3,473)	-	-	-	-	-
Transfer to dedicated capital (Note 20)	-	-	476,262	357,197	833,459	-	(833,459)	-	
Balance as of December 31, 2005	12,055,383	8,988,107	2,682,424	2,217,005	4,899,429	636,964	13,457,591	6,106,713	4
Balance as of January 1, 2006	12,055,383	8,988,107	2,682,424	2,217,005	4,899,429	636,964	13,457,591	6,106,713	4
Changes in equity for the year ended December 31, 2006									
Fair value gains from available-for-sale investment – gross (Note 13)	-	-	-	-	-	425,769	-	-	-
Fair value gains from available-for-sale investment – tax (Note 29)	-	-	-	-	-	(63,908)	-	-	-
Net income recognized directly in equity	-	-	-	-	-	361,861	-	-	-
Profit for the year ended December 31, 2006	-	-	-	-	-	-	6,071,154	817,920	
Total recognized income and expense for the	-	-	-	-	-	361,861	6,071,154	817,920	

year									
Net capital injection from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	588,201
Dividends waived by a shareholder of a subsidiary	-	866	-	-	-	-	-	-	495
Dividends relating to 2005	-	-	-	-	-	-	(3,013,846)	(362,146)	(
Transfer from statutory public welfare fund to statutory surplus reserve fund	-	-	2,217,005	(2,217,005)	-	-	-	-	-
Transfer to dedicated capital (Note 20)	-	-	555,038	-	555,038	-	(555,038)	-	-
Balance as of December 31, 2006	12,055,383	8,988,973	5,454,467	-	5,454,467	998,825	15,959,861	7,151,183	5

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HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONT'D)
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB)

	Attributable to equity holders of the Company						Minority interests	Total	
	Share capital	Additional paid-in capital	Dedicated capital		Available-for-sale investment revaluation reserve	Retained earnings			
			Statutory reserve	Statutory discretionary surplus funds	Statutory public welfare fund	Sub-total			
Balance as of January 1, 2007	12,055,383	8,988,973	5,454,467	-	5,454,467	998,825	15,959,861	7,151,183	50,6
Changes in equity for the year ended December 31, 2007									
Fair value gains from available-for-sale investment – gross (Note13)	-	-	-	-	-	1,607,251	-	-	1,60
Fair value gains from available-for-sale investment – tax (Note 29)	-	-	-	-	-	(483,366)	-	-	(483
Reversal of deferred income tax	-	-	-	-	-	79,105	-	-	79,1
Disposals of available-for-sale investment	-	-	-	-	-	(527,366)	-	-	(527
Net income recognized directly in equity	-	-	-	-	-	675,624	-	-	675,
Profit for the year ended December 31, 2007	-	-	-	-	-	-	6,161,127	319,904	6,48
Total recognized income and	-	-	-	-	-	675,624	6,161,127	319,904	7,15

expense for the year									
Deemed disposal of a subsidiary (Note 11)	-	-	--	--	-	(2,216,278)	(2,216,278)		
Acquisitions of subsidiaries	-	-	--	--	-	225,718	225,718		
Net capital injection from minority shareholders of subsidiaries	-	-	--	--	-	116,890	116,890		
Dividends relating to 2006	-	-	--	--	(3,375,507)	(446,355)	(3,821,862)		
Transfer to dedicated capital (Note 20)	-	-	631,806	631,806	(631,806)	-	-		
Others	-	-	9,827	9,827	-	-	-		9,827
Balance as of December 31, 2007	12,055,383	8,988,973	6,096,100	6,096,100	1,674,449	18,113,675	5,151,062	52,000,000	52,000,000

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

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Prepared in accordance with International Financial Reporting Standards)

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

Note	For the year ended December 31,		2006 RMB	2005 RMB
	2007 RMB	US\$		
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before income tax expense	7,319,301	1,002,013	8,016,773	6,592,208
Adjustments to reconcile profit before income tax expense to net cash provided by operating activities:				
Depreciation	7,229,108	989,665	6,721,684	6,172,866
Provision for impairment loss on property, plant and equipment	7,044	964	11,920	30,080
Amortization of land use rights	46,447	6,359	42,484	36,429
Amortization of other non-current assets	17,813	2,439	15,719	15,297
Amortization of housing loss	38,059	5,210	38,810	39,258
Amortization of bonds issuance expense	17,403	2,382	19,052	-
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	-	-	(24,758)	-
Gain on deemed disposal of Huaneng Sichuan Hydropower Co., Ltd. ("Sichuan Hydropower")	(17,864)	(2,446)	-	-
Gain on disposal of available-for-sale investment	(527,366)	(72,196)	-	-
(Reversal of) / Provision for doubtful accounts	(1,466)	(201)	(4,853)	49,869
(Reversal of) / Provision for inventory obsolescence	(6,615)	(906)	1,808	31,724
Investment income, net	(127,281)	(17,425)	(128,595)	(60,872)
(Gain)/Loss on disposals or write-off of property, plant and equipment, net	(238,037)	(32,587)	100,018	145,762
Unrealized exchange gain, net	(236,093)	(3,970)	(116,028)	(294,281)
Share of profits of associates	(586,323)	(80,268)	(790,629)	(644,376)
Interest income	(53,527)	(7,328)	(51,910)	(53,685)
Interest expense	2,132,122	291,888	1,591,033	1,426,609
Changes in working capital:				

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Inventories	(190,332)	(26,056)	188,060	(831,622)
Other receivables and assets	(201,721)	(27,616)	(106,505)	265,320
Accounts receivable	(1,498,184)	(205,101)	(883,033)	(596,517)
Due from HIPDC	-	-	-	(21,847)
Due from other related parties	61	8	(621)	14,970
Restricted cash	(13,520)	(1,851)	(2,587)	1,412
Other non-current liabilities	251,761	34,466	183,003	91,188
Accounts payable and other liabilities	31,610	4,327	39,378	574,654
Taxes payable	(40,650)	(5,565)	151,412	(69,569)
Due to Huaneng Group	-	-	(6,128)	6,128
Due to HIPDC	410	56	26,500	(1,205,569)
Due to associates	(75,258)	(10,303)	83,512	(3,799)
Due to other related parties	239,008	32,720	36,176	20,183
Salary and welfare payables	(270,994)	(37,099)	189,641	(23,653)
Others	(31,073)	(4,254)	1,790	-
Interest paid	(2,722,935)	(372,770)	(2,507,354)	(1,965,094)
Interest received	52,825	7,232	53,444	52,475
Income tax paid	(1,192,133)	(163,203)	(1,394,503)	(1,114,698)
Net cash provided by operating activities	9,351,600	1,308,584	11,494,713	8,680,850

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HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Prepared in accordance with International Financial Reporting Standards)

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

	Note	For the year ended December 31,			
		2007 RMB	US\$	2006 RMB	2005 RMB
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(14,223,310)	(1,947,172)	(15,998,575)	(13,842,293)
Proceeds from disposals of property, plant and equipment, net		270,131	36,981	32,180	32,098
Prepayments of land use rights		(216,752)	(29,673)	(250,627)	(99,745)
Prepayments of territorial waters use right		(152,409)	(20,865)	-	-
(Increase) / Decrease in other non-current assets		(6,247)	(855)	(8,973)	15,766
Decrease in temporary cash investments		-	-	2,652	9,989
Cash dividend received		518,934	71,042	482,609	429,589
Capital injections in associates		(1,654,000)	(226,433)	(174,918)	-
Purchases of financial assets at fair value through profit or loss		(370,189)	(50,679)	-	-
Cash paid for acquiring available-for-sale investments		(449,457)	(61,531)	-	-
Proceeds from trading of available-for-sale investment		603,411	82,606	-	-
Cash consideration paid for acquisitions		(485,750)	(66,500)	-	(2,544,998)
Cash from the power plants acquisitions	34(c)	259,924	35,583	-	566,704
Cash outflow upon deemed disposal of Sichuan Hydropower	34(d)	(322,176)	(44,107)	-	-
Others		(29,465)	(4,035)	110	19,521
Net cash used in investing activities		(16,257,355)	(2,225,638)	(15,915,542)	(15,413,369)
CASH FLOWS FROM FINANCING ACTIVITIES					
Short-term bonds issuance expense paid		(20,000)	(2,738)	(20,000)	(22,500)
Issuance of short-term bonds		5,000,000	684,500	5,000,000	4,862,200
Repayments of short-term bonds		(5,000,000)	(684,500)	(4,862,200)	-
Drawdown of short-term loans		23,898,505	3,271,707	14,458,700	11,657,569
Repayments of short-term loans		(19,771,700)	(2,706,746)	(13,215,850)	(13,670,000)
Drawdown of long-term loans from Huaneng Group		-	-	-	2,000,000
Drawdown of long-term bank loans		8,186,176	1,120,688	9,982,982	8,297,018
Repayments of long-term bank loans		(3,282,102)	(449,320)	(3,010,623)	(2,933,870)
Drawdown of other long-term loans		-	-	40,000	-

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Repayments of other long-term loans	(210,873)	(28,869)	(472,154)	(351,118)
Long-term bonds issuance expense paid	(96,356)	(13,191)	-	-
Issuance of long-term bonds	6,000,000	821,400	-	-
Net capital injection from minority shareholders of the subsidiaries	116,890	16,002	588,708	585,702
Dividends paid to shareholders of the Company	(3,375,507)	(462,107)	(3,013,846)	(3,022,096)
Dividends paid to minority shareholders of the subsidiaries	(434,205)	(59,443)	(495,361)	(318,252)
Net cash provided by financing activities	11,010,828	1,507,383	4,980,356	7,084,653
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,105,073	590,329	559,527	352,134
Cash and cash equivalents, beginning of the year	3,207,192	410,720	2,647,665	2,295,531
CASH AND CASH EQUIVALENTS, END OF THE YEAR	34(a) 7,312,265	1,001,049	3,207,192	2,647,665

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

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

1. COMPANY ORGANIZATION AND PRINCIPAL ACTIVITIES

Huaneng Power International, Inc. (the "Company") was incorporated in the People's Republic of China (the "PRC") as a Sino-foreign joint stock limited company on June 30, 1994. The Company and its subsidiaries are principally engaged in the generation and sale of electric power to the respective regional or provincial grid companies in the PRC.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investment and financial assets at fair value through profit or loss. This basis of accounting differs from that used in the preparation of the statutory financial statements of the Company and its subsidiaries ("PRC statutory financial statements"). The PRC statutory financial statements of the Company and its subsidiaries comprising the financial statements have been prepared in accordance with the relevant accounting principles and regulations applicable to the Company and its subsidiaries, as appropriate in the PRC. Appropriate adjustments have been made to the PRC statutory financial statements to conform to IFRS. Differences arising from the restatement have not been incorporated in the statutory accounting records of the Company and its subsidiaries.

The consolidated financial statements are expressed in Renminbi ("RMB"), the national currency of the PRC. Solely for the convenience of the reader, the December 31, 2007 financial statements have been translated into United States Dollars (US\$) at the rate of US\$1.00=RMB7.3046 announced by the People's Bank of China on December 31, 2007. No representation is made that Renminbi amounts could have been, or could be, converted into United States Dollars at the rate on December 31, 2007, or at any other certain rate.

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

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

During 2007, a significant portion of the Company and its subsidiaries' funding requirements for capital expenditures were satisfied by short-term borrowings. Consequently, as of December 31, 2007, the Company and its subsidiaries have a negative working capital balance of approximately RMB12.8 billion (2006: RMB13.3 billion). The Company and its subsidiaries have unsecured undrawn available banking facilities amounting to approximately RMB18.70 billion (2006: RMB25.61 billion), and will refinance and / or restructure certain short-term loans into long-term loans and also consider alternative sources of financing, where applicable. Therefore, the directors of the Company and its subsidiaries are of the opinion that the Company and its subsidiaries will be able to meet its liabilities as and when they fall due within the next twelve months and have prepared these financial statements on a going concern basis.

The following new standard, amendment to standard and interpretation are mandatory for financial year with annual period beginning on or after January 1, 2007 and relevant to the Company and its subsidiaries.

- IFRS 7, Financial Instruments: Disclosures and a complementary amendment to International Accounting Standard ("IAS") 1, Presentation of Financial statements – Capital Disclosures. IFRS 7 introduces new disclosures relating to financial instruments. This standard introduces certain revised disclosure requirements, including the mandatory disclosures on sensitivity analysis for each type of market risk. It replaces IAS 30, Disclosures in the Financial statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation and is applicable to all entities reporting under IFRS. The amendment to IAS 1 introduces disclosures on the objectives, policies and processes for managing capital. Except for an extension of disclosures, the Company and its subsidiaries considered there was no significant impact from adopting IFRS 7 and the amendment to IAS 1 on the financial statements of the Company and its subsidiaries.
- International Financial Reporting Interpretation Committee Interpretation ("IFRIC Interpretation") 10, Interim Financial Reporting and Impairment. This interpretation prohibits the impairment losses recognized in a previous interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at subsequent balance sheet dates. The Company and its subsidiaries considered there will be no significant impact from adopting IFRIC Interpretation 10 on the financial statements of the Company and its subsidiaries.

(b) Consolidation

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

(i) Subsidiaries

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

whether the Company and its subsidiaries controls another entity.

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HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

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

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

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

(ii) Transactions with minority interests

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

(iii) Associates

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

HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
(Prepared in accordance with International Financial Reporting Standards)

(Amounts expressed in thousands of RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(b) Consolidation (cont'd)

(iii) Associates (cont'd)

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

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

Dilution gains and losses in associates are recognized in the income statement.

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(d) Property, plant and equipment, net

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

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

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

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

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

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

	2007	2006
Dam	N/A	45 – 55 years
Buildings	15 – 35 years	8 – 55 years
Electric utility plant in service	7 – 35 years	4 – 40 years
Transportation facilities	6 – 15 years	5 – 27 years
Others	4 – 18 years	2.5 – 18 years

*The change of the above range was due to the conversion of Sichuan Hydropower from subsidiary to associate.

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

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

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

(e) Goodwill

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

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

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HUANENG POWER INTERNATIONAL, INC. AND ITS SUBSIDIARIES

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2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

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

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

(g) Financial assets

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

(iv) Available-for-sale investments

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

within 12 months of the balance sheet date.

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

(g) Financial assets (cont'd)

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

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

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

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

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

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2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(h) Inventories

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

(i) Receivables

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

(j) Related parties

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

(k) Cash and cash equivalents

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

(l) Accounts and other payables

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

(m) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized costs; any differences between the proceeds (net of transaction costs) and the redemption value is

recognized in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company and its subsidiaries have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(n) Taxation

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

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

(ii) Current and deferred income tax

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

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(n) Taxation (cont'd)

(ii) Current and deferred income tax (cont'd)

In March 2007, the PRC government promulgated the Enterprise Income Tax Law (the "CIT Law") which will be effective from January 1, 2008. The CIT Law will impose a single income tax rate of 25% for both domestic and foreign investment enterprise. The existing Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (the "FIE and FE tax laws") and Provisional Regulations of the People's Republic of China on Enterprise Income Tax (collectively referred to as the "existing tax laws") will be abolished simultaneously. Currently, the power plants of the Company and its subsidiaries applied the tax rates under the existing tax laws in deriving the current income tax expense. The CIT Law has provided a 5-year transitional period for those entities that applied FIE and FE tax laws in previous years.

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

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

(o) Employee benefits

(i) Pension obligations

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

(ii) Termination benefits

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

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2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(p) Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company and its subsidiaries will comply with all attached conditions.

Government grants relating to costs are recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(q) Revenue and income recognition

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

(i) Operating revenue

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

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2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(q) Revenue and income recognition (cont'd)

(ii) Management service income

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

(iii) Interest income

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

(iv) Dividend income

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

(r) Operating leases

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

(s) Borrowing costs

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

(t) Financial guarantee contracts

(i) Classification

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

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

(ii) Liability adequacy test

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

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2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(u) Dividend distribution

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

(v) Contingencies

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

(w) Standards and amendments to published standards that are not yet effective but relevant to the Company and its subsidiaries

Certain new standards, amendments to existing standards have been published that are mandatory for the accounting periods of the Company and its subsidiaries beginning on or after January 1, 2009 or later periods but which the Company and its subsidiaries have not early adopted. These are summarized as follows:

- IAS 1, Presentation of financial statements (effective for annual periods beginning on or after January 1, 2009), replaces IAS 1 (revised in 2003) as amended in 2005 and establishes the amendments to the presentation of information in the financial statements. It requires the presentation of recognized income and expense in a statement of comprehensive income or in a statement of profit or loss together with a statement of comprehensive income, separately from owner changes in equity. All other non-owner changes in equity and related current and deferred income tax should also be presented separately from the owner changes in equity. IAS 1 also requires, as a minimum, the presentation of three statements of financial position (balance sheet) in a complete set of financial statements whenever there is a prior period adjustment or a reclassification of items in the financial statements – as of the end of the current period, the end of the comparative period and the beginning of the comparative period. Dividends recognized as distributions to owners and related per-share amounts should be presented on the face of the statement of changes in equity or in the notes and not on the face of the statement of comprehensive income or the face of the income statement. The Company and its subsidiaries will apply IAS 1 in its financial statements for the period commencing from January 1, 2009. Management does not expect any material impact from adopting IAS 1 on the financial statements of the Company and its subsidiaries.
- IAS 23, Borrowing costs (effective for annual periods beginning on or after January 1, 2009). It supersedes IAS 23 revised in 1993 and requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sales) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Company and its subsidiaries will apply IAS 23 from January 1, 2009. As the Company and its subsidiaries used to adopt the capitalization treatment under existing IAS 23, management considered there is no material

impact from adopting IAS 23 on the financial statements of the Company and its subsidiaries.

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2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

- (w) Standards and amendments to published standards that are not yet effective but relevant to the Company and its subsidiaries (cont'd)
- IAS 27, Consolidated and separate financial statements (effective for annual periods beginning on or after July 1, 2009). It replaces IAS 27 (revised in 2003) and establishes the amendments to the presentation, accounting treatment and disclosure requirement related to the consolidated financial statements. IAS 27 requires the total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. Gain or loss is recognized in the income statement when an entity loses control of a subsidiary. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Company and its subsidiaries will apply IAS 27 in its financial statements from January 1, 2010. The expected impact on the accounting policies is still being assessed by the Company and its subsidiaries.
 - IFRS 3, Business combinations (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009). IFRS 3 supersedes IFRS 3 as issued in 2004 and clarifies the accounting for business combination in details. This IFRS provides a revised approach of deriving goodwill which non-controlling interest can be measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets before including in the computation of goodwill. It also stipulated certain exceptions to recognition and measurement principles for certain acquisition items with corresponding subsequent accounting treatments. The Company and its subsidiaries will apply IFRS 3 in its financial statements from any acquisition effective after December 31, 2009. The expected impact on the accounting policies is still being assessed by the Company and its subsidiaries.
 - IFRS 8, Operating segments (effective for annual periods beginning on or after January 1, 2009). IFRS 8 replaces IAS 14 and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purpose. The Company and its subsidiaries will apply IFRS 8 from January 1, 2009. The Company and its subsidiaries considered there is no material impact from adopting IFRS 8 on the financial statements of the Company and its subsidiaries.

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3. FINANCIAL, CAPITAL AND INSURANCE RISKS MANAGEMENT

(a) Financial risk management

Risk management, including the management on the financial risks, is carried out under the instruction of the Strategy Committee of Board of Directors and the Risk Management Team. The Company works out general principles for overall management as well as management policies covering specific areas. In considering the importance of risks, the Company identifies and evaluates risks at head office and individual power plant level, and requires analysis and proper communication for the information collected periodically.

(i) Market risk

(1) Foreign exchange risk

Foreign exchange risk primarily arises from loans denominated in foreign currencies of the Company and its subsidiaries. Related exposures are disclosed in Note 22 to the financial statement.

At December 31, 2007, if RMB had weakened /strengthened by 5% (2006 and 2005: 5% and 3%) against US\$ and 3% (2006 and 2005: 3% and 6%) against € with all other variables constant, exchange gain of the Company and its subsidiaries would have been RMB174 million (2006 and 2005: RMB227 million and RMB166 million) and RMB20 million (2006 and 2005: RMB20 million and RMB42 million) lower/higher respectively. The ranges of such sensitivity disclosed above were based on the observation on the historical trend of related exchange rates during the previous year under analysis.

(2) Price risk

The Company and its subsidiaries are exposed to equity security price risk because of investments held by the Company and its subsidiaries and classified on the balance sheets either as available-for-sale or at fair value through profit or loss. The exposure of such a risk is presented on the balance sheets.

Detailed information relating to the available-for-sale investments is disclosed in Note 13. Being a strategic investment in nature, the Company has a director in the Board of the investee and exercises influence in safeguarding the interest. The Company and its subsidiaries also closely monitor the pricing trends in the open market in determining their long-term strategic stakeholding decisions.

(3) Cash flow and fair value interest rate risk

The interest rate risk of the Company and its subsidiaries primarily arises from loans and bonds. Loans borrowed at variable rates expose the Company and its subsidiaries to cash flow interest rate risk while bonds and loans issued/borrowed at fixed rates expose the Company and its subsidiaries to fair value interest rate risk. The exposures of these risks are disclosed separately in Notes 22 and 23 to the financial statements. The Company will enter into interest rate swap agreements with banks when considered appropriate to hedge against cash flow interest rate risk.

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

(a) Financial risk management (cont'd)

(i) Market risk (cont'd)

(3) Cash flow and fair value interest rate risk (cont'd)

At December 31, 2007, if interest rates on RMB-denominated borrowings had been 50 basis points (2006 and 2005: 100 basis points and 50 basis points) higher/lower with all other variables held constant, interest expense for the year would have been RMB198 million (2006 and 2005: RMB315 million and RMB119 million) higher/lower. The ranges of such sensitivity disclosed above were based on the observation on the historical trend of related interest rates during the previous year under analysis.

(ii) Credit risk

Credit risk arises from cash and cash equivalents, credit exposures to customers and outstanding receivables. The maximum exposures of cash and cash equivalents, accounts and other receivable are disclosed in Notes 34, 17 and 18 to the financial statements, respectively.

A significant portion of cash and cash equivalents of the Company and its subsidiaries is deposited with a non-bank financial institution which is a related party of the Company. The Company has a director in the Board of this non-bank financial institution and exercises influence. Corresponding maximum exposures of these cash equivalents are disclosed in Note 7 to the financial statements.

Most of the power plants of the Company and its subsidiaries sell electricity generated to their sole customers, the power grid companies of their respective provinces or regions where the power plants operate. Related concentrations are disclosed in Note 37 to the financial statements. The Company and its subsidiaries communicate with their individual grid companies periodically and believe that adequate provision for doubtful accounts have been made in the financial statements. The Company and its subsidiaries do not hold any collateral as securities.

(iii) Liquidity risk

Liquidity risk management is to primarily ensure the ability of the Company and its subsidiaries to meet its liabilities as and when they are fall due. The liquidity reserve comprises the undrawn borrowing facility and cash and cash equivalents (Note 34) available as of each month end in meeting its liabilities.

The Company and its subsidiaries maintained flexibility in funding by cash generated by their operating activities and availability of committed credit facilities (Note 34).

Financial liabilities due within 12 months are presented as the current liabilities in the balance sheets. The repayment schedules of the long-term loans and long-term bonds are disclosed in Notes 22 and 23.

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

(b) Fair value estimation

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

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

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

The estimated fair value of long-term loans including current maturities and long-term bonds was approximately RMB37.22 billion and approximately RMB5.89 billion as of December 31, 2007 (2006: RMB38.16 billion and nil) respectively. The aggregate book value of these liabilities was approximately RMB37.66 billion and RMB5.89 billion as of December 31, 2007 (2006: RMB38.43 billion and nil) respectively.

(c) Capital risk management

The objectives of the Company and its subsidiaries when managing capital are to safeguard the ability of the Company and its subsidiaries in continuing as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company and its subsidiaries monitor capital by using debt ratio analysis. This ratio is calculated as total liabilities (sum of current liabilities and non-current liabilities) divided by total assets as shown in consolidated balance sheet. During 2007, the strategy of the Company and its subsidiaries remained unchanged from 2006. The debt ratio of the Company and its subsidiaries as of December 31, 2007 was 58.10% (2006: 55.58%).

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

(d) Insurance risk management

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Estimated impairment of goodwill

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

(b) Useful lives of property, plant and equipment

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

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

(c) Estimated impairment of property, plant and equipment

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

5. OTHER INCOME, NET

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

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6 PROFIT BEFORE INCOME TAX EXPENSE

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

	For the year ended December 31,		
	2007	2006	2005
Interest expense on bank loans:			
- wholly repayable within five years	1,854,879	1,327,990	881,823
- not wholly repayable within five years	567,464	833,739	1,021,467
Interest expense on long-term loans from Huaneng Group:			
- not wholly repayable within five years	137,942	140,194	84,506
Interest expense on other long-term loans:			
- wholly repayable within five years	14,945	40,483	44,262
- not wholly repayable within five years	-	-	12,495
Interest expense on long-term bonds	7,030	-	-
Interest expense on short-term bonds	163,951	140,275	84,615
Total interest expense	2,746,211	2,482,681	2,129,168
Less: amounts capitalized in property, plant and equipment	(614,089)	(891,648)	(702,559)
	2,132,122	1,591,033	1,426,609
Change in fair value on financial instruments:			
- Financial assets at fair value through profit and loss	(87,132)	(100,180)	-
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	-	(24,758)	-
Gain on deemed disposal of Sichuan Hydropower (Note 11)	(17,864)	-	-
Auditors' remuneration	34,688	48,315	33,781
(Gain) / Loss on disposals or write-off of property, plant and equipment, net	(238,037)	100,018	145,762
Operating leases:			
- Property, plant and equipment	34,366	33,724	33,077
- Land use rights	40,819	41,090	42,402
Depreciation of property, plant and equipment	7,229,108	6,721,684	6,172,866
Impairment loss of property, plant and equipment	7,044	11,920	30,080

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Amortization of land use rights	46,447	42,484	36,429
Amortization of other non-current assets	17,813	15,719	15,297
Cost of inventories consumed	28,330,667	23,034,903	21,580,927
(Reversal of) / Provision for doubtful accounts	(1,466)	(4,853)	49,869
Bad debts recovery	(5,318)	(35,035)	(59,740)
(Reversal of) / Provision for inventory obsolescence	(6,615)	1,808	31,724
Staff costs:			
- Wages and staff welfare	1,754,490	1,936,908	1,735,065
- Retirement benefits (Note 8)	528,728	503,592	407,846
- Termination benefits	17,661	-	-
- Housing fund (Note 31)	196,348	198,212	147,479
- Social insurance and others	288,882	248,054	196,708

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7 RELATED PARTY BALANCES AND TRANSACTIONS

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

Names of related parties	Nature of relationship
Huaneng Group	Ultimate parent company
HIPDC	Parent company
Xi'an Thermal Power Research Institute Co., Ltd. ("Xi'an Thermal") and its subsidiaries	Subsidiaries of Huaneng Group
Huaneng Energy & Communications Holdings Co., Ltd. ("HEC") and its subsidiaries	Subsidiaries of Huaneng Group
Huaneng Capital Service Co., Ltd. ("Huaneng Capital Service")	A subsidiary of Huaneng Group
Greatwall Securities Co., Ltd. ("Greatwall Securities")	A subsidiary of Huaneng Group
Qufushengcheng Heat-Power Company Ltd. ("Qufushengcheng Heat-Power Company")	A subsidiary of Huaneng Group
Zhalainuoer Coal Mining Company Ltd. ("Zhalainuoer Coal")	A subsidiary of Huaneng Group
Shandong Rizhao Power Company Ltd. ("Rizhao Power Company")	An associate of the Company
China Huaneng Finance Co., Ltd. ("Huaneng Finance")	An associate of the Company
Chongqing Huaneng Shifen Company Limited ("Shifen Company")	An associate of a subsidiary
State-owned enterprises*	Related parties of the Company

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

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

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

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

(a) Related party balances

(i) As of December 31, 2007, current deposits of approximately RMB4,942 million (2006: RMB2,247 million) were placed with Huaneng Finance, a non-bank PRC financial institution, which bore interest that ranged from 0.72% to 1.53% (2006 and 2005: from 0.72% to 1.62%) per annum.

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

(iii) As of December 31, 2007, short-term loans amounting to approximately RMB2,292 million (2006: RMB2,535 million) were borrowed from Huaneng Finance, which bore interest that ranged from 4.20% to 6.56% (2006 and 2005: from 3.80% to 5.51% and from 4.70% to 5.02%) per annum.

(iv) As of December 31, 2007 and 2006, balances with Huaneng Group, HIPDC, subsidiaries and other related parties are unsecured, non-interest bearing and receivable / repayable within one year. As of and for the years ended December 31, 2007, 2006 and 2005, no provision is made on receivable balances from these parties.

(v) As of December 31, 2007, balances with associates are unsecured, non-interest bearing and repayable within one year. As of December 31, 2006, including in the balances with associates, a balance with an associate amounted to approximately RMB77 million is unsecured, interest bearing at 5.265% (2005: nil) per annum and repayable within one year. All the remaining balances are unsecured, non-interest bearing and repayable within one year.

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

	As of December 31,	
	2007	2006
	RMB million	RMB million
Receivables and other assets, net	8,465	7,262
Cash at banks	2,335	856
Borrowings	37,787	33,650
Accounts payable and other liabilities	4,346	2,822

Except for cash at banks and borrowings stated above, all the balances of assets and liabilities with state-owned enterprises mentioned above are unsecured, non-interest bearing and receivable/repayable within one year. As of December 31, 2007, provision of approximately RMB51 million (2006: RMB51 million) has been made on

receivable balances.

Terms of the long-term loans, short-term loans and cash at banks are described in Notes 22, 28 and 34(a), which have no material difference with the terms with third parties.

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

(b) Related party transactions

	For the year ended December 31,		
	2007	2006	2005
Huaneng Group			
Management service fee income for management services rendered to certain power plants	41,785	39,099	31,668
Less: related expenses	(30,266)	(29,708)	(29,510)
Management service fee income, net	11,519	9,391	2,158
Acquisition of 20% equity interest in Huaneng Finance	-	(126,000)	-
Acquisition of 5% additional equity interest in Henan Qinbei Power Limited Company ("Qinbei Power Company")	(65,750)	-	-
Interest expense on long-term loans	(137,942)	(139,946)	(35,700)
Net income for substituted power arrangement to a branch of Huaneng Group	6,245	-	-
HIPDC			
Management service fee income for management services rendered to certain power plants	3,981	4,378	3,328
Less: related expenses	(2,884)	(3,327)	(3,101)
Management service fee income, net	1,097	1,051	227
Service fees expenses on transmission and transformer facilities	(140,771)	(140,771)	(141,102)
Rental charge on land use rights of Huaneng Nanjing Power Plant	(1,334)	(1,334)	(1,334)
Rental charge on office building	(26,000)	(26,000)	(26,000)
Acquisition of Huaneng Nanjing Jinling Power Generation Co., Ltd. ("Jinling Power Company") (Note)	(420,000)	-	-
Huaneng Finance			
Discounting of notes receivable	354,517	114,150	298,098
Discounting charges	(4,673)	(1,086)	(2,415)
Drawdown of short-term loans	2,247,700	3,374,700	2,127,700
Drawdown of long-term loans	-	40,000	-
Issuance of short-term bonds	-	900,000	-

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Interest on short-term and long-term loans	(138,292)	(128,414)	(104,550)
Huaneng Capital Service			
Issuance of short-term bonds	-	250,000	-
Greatwall Securities			
Issuance of short-term bonds	-	300,000	-
China Huaneng International Trade Economics Corporation ("CHITEC")*			
Purchase of coal from CHITEC	-	(139,972)	(284,301)
Purchase of equipment from CHITEC	-	(34,055)	(11,200)
HEC and its subsidiaries			
Purchase of coal from HEC and its subsidiaries and service fee occurred for transportation	(2,907,428)	(735,081)	(606,753)
Purchase of equipment from HEC and its subsidiaries	(247,764)	-	-
Hebei Huaneng Jingyuan Coal Company Limited ("Huaneng Jingyuan")*			
Purchase of coal from Huaneng Jingyuan	-	(49,159)	(241,960)

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

(b) Related party transactions (cont'd)

	For the year ended December 31,		
	2007	2006	2005
Shifen Company			
Purchase of lime from Shifen Company	(63,506)	(47,235)	(42,817)
Huaneng Xinrui Controlled Technology Co., Ltd. ("Huaneng Xinrui")*			
Technical services and industry-specific technological project contracting services	-	(9,425)	(24,521)
Xi'an Thermal and its subsidiaries			
Technical services and industry-specific technological project contracting services	(139,234)	(94,723)	(55,605)
Qufushengcheng Heat-Power Company			
Net income for substituted power arrangement	23,065	-	-
Zhalainuoer Coal			
Purchase of coal from Zhalainuoer Coal	(8,562)	-	-

* In 2007, as CHITEC (including Huaneng Jingyuan, a subsidiary of CHITEC) and Huaneng Xinrui merged with HEC and Xi'an Thermal and became subsidiaries of HEC and Xi'an Thermal, respectively, the transactions with the entities above are presented under "HEC and its subsidiaries" and "Xi'an Thermal and its subsidiaries" respectively.

Note

In December 2007, the Company acquired 60% equity interest in Jinling Power Company from HIPDC using cash at RMB420 million. Goodwill of RMB1.34 million arose from this acquisition as a result of the expectation of high profitability and synergy of this acquired business. This acquisition has no material impact on the financial results of the Company and its subsidiaries as this transaction became effective close to the end of 2007. Please refer to Note 34(c) for details of related assets and liabilities acquired.

Transactions with state-owned enterprises

	For the year ended December 31,		
	2007	2006	2005
	RMB million	RMB million	RMB million
Sales of electricity	49,628	44,646	40,977
Purchases of fuel	(17,888)	(12,499)	(13,763)
Acquisition of property, plant and equipment	(5,331)	(7,568)	(5,578)
Subcontracting labor for construction and renovation	(2,092)	(3,621)	(2,088)
Issuance of short-term bonds	5,000	3,550	4,862
Drawdown of short-term loans	18,299	9,033	6,650
Drawdown of long-term bank loans	8,136	9,453	9,465
Interest expense of loans and bonds to banks and other financial institutions	(1,905)	(1,797)	(881)

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

(c) Guarantees

	As of December 31,	
	2007	2006
(i) Short-term loan guaranteed by state-owned banks	1,000,000	1,000,000
(ii) Long-term loans guaranteed by		
- Huaneng Group	1,462,140	6,249,089
- HIPDC	2,041,783	2,693,280
- State-owned enterprises	100,000	353,250
(iii) Certain long-term bank loans of Rizhao Power Company guaranteed by the Company	(86,063)	(123,250)
(iv) Purchase settlements guaranteed by a state-owned bank	-	80,000
(v) Long-term bonds guaranteed by state-owned banks	6,000,000	-

(d) Key management personnel compensation

	For the year ended December 31,		
	2007	2006	2005
Salaries and other short-term employee benefits	6,930	5,670	6,049
Post-employment benefits	1,529	1,616	1,413
Total	8,459	7,286	7,462

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8. RETIREMENT PLAN AND POST-RETIREMENT BENEFITS

All PRC employees of the Company and its subsidiaries are entitled to a monthly pension upon their retirements. The PRC government is responsible for the pension liability to these employees on retirement. The Company and its subsidiaries are required to make contributions to the publicly administered retirement plan at a specified rate, currently set at 18% to 22% (2006 and 2005: 18% to 22%), of the basic salary of the PRC employees. The retirement plan contributions paid by the Company and its subsidiaries for the year ended December 31, 2007 were approximately RMB281 million (2006 and 2005: RMB278 million and RMB227 million).

In addition, the Company and its subsidiaries have implemented a supplementary defined contribution retirement scheme. Under this scheme, the employees are required to make a specified contribution based on the number of years of service with the Company and its subsidiaries, and the Company and its subsidiaries are required to make a contribution equal to two to three times the employees' contributions, such an amount is payable from the approved salary budget. The employees will receive the total contributions upon their retirement. The contributions paid by the Company and its subsidiaries for the year ended December 31, 2007 totaled approximately RMB257 million (2006 and 2005: RMB238 million and RMB181 million).

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

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

(a) Directors' and supervisors' emoluments

The remuneration of every director and supervisor of the Company for the year ended December 31, 2007 is set out below:

Name of director	Fees	Basic salaries and allowances	Discretionary bonuses	Employer's contributions to pension schemes	Total
Mr. Li Xiaopeng	-	-	-	-	-
Mr. Huang Yongda	-	-	-	-	-
Mr. Huang Long	-	-	-	-	-
Mr. Na Xizhi	-	222	627	197	1,046
Mr. Wu Dawei	-	124	544	123	791
Mr. Shan Qunying	40	-	-	-	40
Mr. Ding Shida	40	-	-	-	40
Mr. Xu Zujian	40	-	-	-	40
Mr. Liu Shuyuan	40	-	-	-	40
Mr. Qian Zhongwei	60	-	-	-	60
Mr. Xia Donglin	60	-	-	-	60
Mr. Liu Jipeng	60	-	-	-	60
Mr. Wu Yusheng	60	-	-	-	60
Mr. Yu Ning	60	-	-	-	60
Sub-total	460	346	1,171	320	2,297
Name of supervisor					
Mr. Guo Junming	-	-	-	-	-
Ms. Yu Ying	40	-	-	-	40
Mr. Gu Jianguo	40	-	-	-	40
Mr. Shen Zongmin	40	-	-	-	40
Ms. Zou Cui	-	126	458	138	722
Mr. Wang Zhaobin	-	125	457	134	716
Sub-total	120	251	915	272	1,558
Total	580	597	2,086	592	3,855

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

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

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

Name of director	Fees	Basic salaries and allowances	Discretionary bonuses	Employer's contributions to pension schemes	Total
Mr. Li Xiaopeng	-	-	-	-	-
Mr. Huang Yongda	-	-	-	-	-
Mr. Wang Xiaosong ¹	-	-	-	-	-
Mr. Huang Long	-	150	350	166	666
Mr. Na Xizhi	-	225	310	173	708
Mr. Wu Dawei	-	21	121	21	163
Mr. Shan Qunying	40	-	-	-	40
Mr. Ding Shida	40	-	-	-	40
Mr. Xu Zujian	40	-	-	-	40
Mr. Liu Shuyuan	40	-	-	-	40
Mr. Qian Zhongwei	60	-	-	-	60
Mr. Xia Donglin	60	-	-	-	60
Mr. Liu Jipeng	60	-	-	-	60
Mr. Wu Yusheng	60	-	-	-	60
Mr. Yu Ning	60	-	-	-	60
Sub-total	460	396	781	360	1,997
Name of supervisor					
Mr. Guo Junming ²	-	-	-	-	-
Ms. Yu Ying	40	-	-	-	40
Mr. Gu Jianguo	40	-	-	-	40
Mr. Shen Zongmin	40	-	-	-	40
Ms. Zou Cui	-	128	398	152	678
Mr. Wang Zhaobin	-	126	382	139	647
Sub-total	120	254	780	291	1,445
Total	580	650	1,561	651	3,442

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

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

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

Name of director	Fees	Basic salaries and allowances	Discretionary bonuses	Employer's contributions to pension schemes	Total
Mr. Li Xiaopeng ³	-	-	-	-	-
Mr. Huang Yongda ³	-	-	-	-	-
Mr. Wang Xiaosong ³	-	-	-	-	-
Mr. Na Xizhi ³	-	96	313	108	517
Mr. Ye Daji ⁴	-	78	66	65	209
Mr. Huang Jinkai ⁴	-	43	195	71	309
Mr. Liu Jinlong ⁴	-	-	-	-	-
Mr. Huang Long ⁵	-	91	375	109	575
Mr. Wu Dawei ⁵	-	-	147	-	147
Mr. Shan Qunying ³	40	-	-	-	40
Mr. Yang Shengming ⁷	20	-	-	-	20
Mr. Xu Zujian ³	40	-	-	-	40
Mr. Liu Shuyuan ³	40	-	-	-	40
Mr. Gao Zongze ⁴	30	-	-	-	30
Mr. Zheng Jianchao ⁴	30	-	-	-	30
Mr. Qian Zhongwei ³	60	-	-	-	60
Mr. Xia Donglin ³	60	-	-	-	60
Mr. Liu Jipeng ³	60	-	-	-	60
Mr. Wu Yusheng ⁵	60	-	-	-	60
Mr. Yu Ning ⁵	60	-	-	-	60
Mr. Ding Shida ⁷	20	-	-	-	20
Sub-total	520	308	1,096	353	2,277
Name of supervisor					
Mr. Wei Yunpeng ⁴	-	-	-	-	-
Mr. Li Yonglin ⁴	20	-	-	-	20
Mr. Pan Jianmin ⁴	-	-	-	-	-
Mr. Zhao Xisheng ⁴	-	35	128	45	208

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Mr. Ye Daji ⁵ and ⁶	-	155	165	132	452
Mr. Shen Weibing ⁷	20	-	-	-	20
Mr. Shen Zongmin ³	40	-	-	-	40
Ms. Yu Ying ⁵	40	-	-	-	40
Ms. Zou Cui ⁵	-	83	282	88	453
Mr. Wang Zhaobin ⁵	-	80	259	77	416
Mr. Gu Jianguo ⁷	20	-	-	-	20
Sub-total	140	353	834	342	1,669
Total	660	661	1,930	695	3,946

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

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

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

During the year, no option was granted to the directors or the supervisors (2006 and 2005: nil).

During the year, no emolument was paid to the directors or the supervisors (including the five highest paid employees) as an inducement to join or upon joining the Company or as compensation for loss of office (2006 and 2005: nil).

No director or supervisor had waived or agreed to waive any emoluments during the years 2005, 2006 and 2007.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company and its subsidiaries for the year include one (2006 and 2005: one) director whose emoluments is reflected in the analysis presented above. The emoluments payable to the remaining four (2006 and 2005: four) individuals during the year are as follows:

	For the year ended December 31,		
	2007	2006	2005
Basic salaries and allowances	536	551	510
Discretionary bonuses	2,406	1,776	2,233
Employer's contributions to pension schemes	657	702	614
	3,599	3,029	3,357

The emoluments fell within the following bands:

	Number of individuals For the year ended December 31,		
	2007	2006	2005
Emolument bands (in RMB)			
RMBnil-RMB1,000,000	4	5	5
RMB1,000,001-RMB1,500,000	1	-	-

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10. PROPERTY, PLANT AND EQUIPMENT, NET

	Dam	Buildings	Electric utility plant service	Transportation facilities	Others	Construction- in-progress	Total
As of January 1, 2006							
Cost	2,565,853	2,168,543	80,113,023	223,816	3,910,861	20,280,986	109,263,082
Accumulated depreciation	(74,187)	(467,445)	(28,605,598)	(83,064)	(1,005,411)	-	(30,235,705)
Accumulated impairment loss	-	-	(30,080)	-	-	-	(30,080)
Net book value	2,491,666	1,701,098	51,477,345	140,752	2,905,450	20,280,986	78,997,297
Year ended December 31, 2006							
Beginning of the year							
	2,491,666	1,701,098	51,477,345	140,752	2,905,450	20,280,986	78,997,297
Reclassification	-	(84,198)	1,748,053	(1,167)	(1,662,688)	-	-
Additions	-	8,295	21,886	39	98,117	18,306,849	18,435,186
Transfer from CIP	987,317	50,504	24,967,179	276	84,012	(26,089,288)	-
Disposals / Write-off	-	(16,284)	(225,963)	(59)	(5,936)	-	(248,242)
Depreciation charge	(95,558)	(97,878)	(6,270,573)	(15,932)	(248,155)	-	(6,728,096)
Impairment charge	-	-	(42,000)	-	-	-	(42,000)
Reversal of impairment charge	-	-	30,080	-	-	-	30,080
End of the year	3,383,425	1,561,537	71,706,007	123,909	1,170,800	12,498,547	90,444,225
As of December 31, 2006							

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Cost	3,553,170	2,053,942	106,111,993	224,007	2,386,701	12,498,547	126,828,360
Accumulated depreciation	(169,745)	(492,405)	(34,363,986)	(100,098)	(1,215,901)	-	(36,342,135)
Accumulated impairment loss	-	-	(42,000)	-	-	-	(42,000)
Net book value	3,383,425	1,561,537	71,706,007	123,909	1,170,800	12,498,547	90,444,225
Year ended December 31, 2007							
Beginning of the year	3,383,425	1,561,537	71,706,007	123,909	1,170,800	12,498,547	90,444,225
Reclassification	-	131,973	(188,275)	(19,800)	76,102	-	-
Acquisition	-	98,889	1,816,102	-	23,165	635,171	2,573,327
Additions	-	16,395	30,494	-	105,875	15,386,036	15,538,800
Transfer from CIP	-	314,883	13,070,043	5,565	211,436	(13,601,927)	-
Disposals / Write-off	-	(6,613)	(243,984)	-	(14,759)	-	(265,356)
Depreciation charge	-	(98,590)	(6,896,759)	(15,409)	(233,825)	-	(7,244,583)
Impairment charge	-	-	(7,044)	-	-	-	(7,044)
Deemed disposal of a subsidiary (Notes 11 & 34(d))	(3,383,425)	(354,363)	(4,909,687)	-	(201,361)	(2,064,614)	(10,913,450)
End of the year	-	1,664,111	74,376,897	94,265	1,137,433	12,853,213	90,125,919
As of December 31, 2007							
Cost	-	2,234,479	114,342,118	206,956	2,452,285	12,853,213	132,089,051
Accumulated depreciation	-	(570,368)	(39,965,221)	(112,691)	(1,314,852)	-	(41,963,132)
Net book value	-	1,664,111	74,376,897	94,265	1,137,433	12,853,213	90,125,919

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

Interest expense of approximately RMB614 million (2006 and 2005: RMB892 million and RMB703 million) arising on borrowings for the construction of power plants were capitalized during the year and are included in 'Additions' in property plant and equipment. A capitalization rate of approximately 5.30% (2006 and 2005: 5.25% and 5.27%) per annum was used.

In 2006, there were impairment losses of certain property, plant and equipment in Huaneng Shantou Power Plant amounting to RMB42 million. The recoverable amount is determined based on fair value less costs to sell based on the bidding price and the valuation performed by an independent valuer. In 2007, an additional provision of RMB7.04 million is made based on the cost over fair value less costs to sell based on the contracts signed. By the end of 2007, the whole impairment charge amounting to RMB49.04 million was reversed upon the disposal of related property, plant and equipment.

In 2005, there were impairment losses of certain property, plant and equipment amounting to RMB30 million in Huaneng Dandong Power Plant ("Dandong Power Plant") due to the continued loss incurred in the operations. In 2006, as a result of changes in the local power market regulations, the tariff of Dandong Power Plant increased and this led to an increase in recoverable amount of related property, plant and equipment based on the value-in-use calculations as of year end. An impairment charge of RMB30 million recorded in 2005 was, thus, reversed in 2006. A discount rate of approximately 7.76% was applied.

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11. INVESTMENTS IN ASSOCIATES

	2007	2006
Beginning of the year	5,418,213	4,593,984
Conversion of Sichuan Hydropower from subsidiary to associate ((a) and Note 34(d))	1,544,206	-
Additional investments in Huaneng Finance	134,000	487,676
Acquisition of equity interest in Shenzhen Energy Investment Co., Ltd. ("SEI") (b)	1,520,000	-
Share of other equity movement	7,255	157
Share of profit before income tax expense	768,318	896,186
Share of income tax expense	(181,995)	(105,557)
Dividends	(478,507)	(454,233)
End of the year	8,731,490	5,418,213

Investments in associates as of December 31, 2007 included goodwill of approximately RMB1,457 million (2006: RMB976 million).

Note:

- (a) In January 2007, Huaneng Group unilaterally injected capital into Sichuan Hydropower amounting to RMB615 million, which had therefore reduced the related equity interest holding of Sichuan Hydropower by the Company from 60% to 49%. From January 2007 onwards, Sichuan Hydropower became an associate of the Company and was accounted for using equity method in the consolidated financial statements instead of a full scope of consolidation.
- (b) In 2006, Shenzhen Energy Group Co., Ltd. ("SEG") planned to restructure with its listed subsidiary – SEI. SEI issued new shares to SEG in acquiring most of the assets of SEG and SEG will be deregistered ultimately. In accordance with the resolutions of the board of directors and related signed agreement, the Company subscribed 200 million shares, and will take up a portion of shareholding of SEI from SEG upon the deregistration of the latter entity. The Company will directly hold 25.01% shareholding in SEI by then. As of December 31, 2007, the Company has paid RMB1.52 billion to subscribe 200 million shares, representing 9.08% shareholding of SEI. The Company considered the nature of the investment and classified this as an associate. The 200 million shares mentioned above are subject to a lock-up period of 3 years from the acquisition date. As there is no published price quotation for shares with such specific lock-up arrangement, there is no price information available for the disclosure purpose.

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11. INVESTMENTS IN ASSOCIATES (CONT'D)

As of December 31, 2007, the investments in associates of the Company and its subsidiaries, all of which are unlisted except for SEI which is listed in the Shenzhen Stock Exchange, were as follows:

Name of associate	Country and date of incorporation	Percentage of equity interest held		Registered and fully paid capital	Principal activities
		Direct	Indirect		
Rizhao Power Company	PRC March 20, 1996	34%	-	RMB1,245,587,900	Power generation
SEG	PRC July 15, 1985	25%	-	RMB955,555,556	Power generation
SEI	PRC August 21, 1993	9.08%	(Note (b))	RMB2,202,495,332	Power generation and investments holding
Hebei Hanfeng Power Generation Limited Liability Company	PRC October 28, 1996	40%	-	RMB1,975,000,000	Power generation
Shifen Company	PRC November 5, 1996	-	25%	RMB50,000,000	Lime production and sale
Huaneng Finance	PRC May 21, 1988	20%	-	RMB2,000,000,000	Provision for financial service including fund deposit services, lending, finance lease arrangements, notes discounting and entrusted loans and investment arrangement within Huaneng Group
Sichuan Hydropower	PRC July 12, 2004	49%	-	RMB800,000,000	Investments holding and hydropower projects

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11. INVESTMENTS IN ASSOCIATES (CONT'D)

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

	2007	2006
Assets	82,084,730	52,651,063
Liabilities	(53,434,823)	(31,138,182)
Operating revenue	17,339,522	14,204,353
Profit attributable to equity holders of the associates	1,992,974	2,768,300

12. INVESTMENTS IN SUBSIDIARIES

As of December 31, 2007, the investments in subsidiaries of the Company and its subsidiaries, all of which are unlisted, were as follows:

Name of subsidiary	Country, date of incorporation and type of legal entity	Percentage of equity interest held	Registered and fully paid capital	Principal activities
Huaneng Weihai Power Limited Liability Company	PRC November 22, 1993 Limited liability company	60%	RMB761,838,300	Power generation
Huaneng Huaiyin Power Generation Co. Ltd ("Huaiyin Power Company")	PRC January 26, 1995 Limited liability company	90%	RMB265,000,000	Power generation
Huaneng Huaiyin II Power Limited Company	PRC June 22, 2004 Limited liability company	63.64%	RMB774,000,000	Power generation

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Huaneng (Suzhou Industrial Park) Power Generation Co. Ltd.	PRC June 19, 1997 Limited liability company	75%	RMB632,840,000	Power generation
Huaneng Taicang Power Co., Ltd.	PRC June 18, 2004 Limited liability company	75%	RMB804,146,700	Power generation
Qinbei Power Company	PRC December 26, 2001 Limited liability company	60%	RMB810,000,000	Power generation

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12. INVESTMENTS IN SUBSIDIARIES (CONT'D)

As of December 31, 2007, the investments in subsidiaries of the Company and its subsidiaries, all of which are unlisted, were as follows (cont'd):

Name of subsidiary	Country, date of incorporation and type of legal entity	Percentage of equity interest held	Registered and fully paid capital	Principal activities
Huaneng Yushe Power Generation Co., Ltd.	PRC November 29, 1994 Limited liability company	60%	RMB615,760,000	Power generation
Huaneng Xindian Power Co., Ltd.	PRC March 24, 2004 Limited liability company	95%	RMB100,000,000	Power generation
Huaneng Huanan Yueyang Power Generation Limited Liability Company ("Yueyang Power Company")	PRC December 16, 2003 Limited liability company	55%	RMB1,055,000,000	Power generation
Huaneng Chongqing Luohuang Power Generation Limited Liability Company	PRC December 16, 2003 Limited liability company	60%	RMB1,658,310,000	Power generation
Huaneng Shanghai Combined Cycle Power Limited Liability Company	PRC January 13, 2005 Limited liability company	70%	RMB685,800,000	Power generation
Huaneng Pingliang Power Generation Co., Ltd. ("Pingliang Power Company")	PRC November 6, 1996 Limited liability company	65%	RMB924,050,000	Power generation

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Huaneng International Power Fuel Limited Liability Company	PRC December 17 ,2007 Limited liability company	100%	RMB200,000,000	Wholesale of coal
Jinling Power Company	PRC February 2, 2005 Limited liability company	60%	RMB582,000,000	Power generation

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13. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments represent the 1.82% (2006: 1.82%) equity interest in China Yangtze Power Co., Ltd. ("Yangtze Power") and the 10% (2006: N/A) equity interest in Shanxi Xishan Jinxing Energy Co., Ltd. ("Jinxing Energy"). Yangtze Power is a listed company and Jinxing Energy is unlisted, both are incorporated in the PRC. As of December 31, 2007, the Company held approximately 171.71 million shares of Yangtze Power (2006: approximately 149.31 million shares). The closing market price of Yangtze Power quoted in Shanghai Stock Exchange on the last trading day of 2007 was RMB19.49 (2006: RMB9.77) per share.

	2007	2006
Beginning of the year	1,458,759	1,033,225
Investment in Jinxing Energy	115,599	-
Additions due to exercise of stock warrants	891,058	-
Disposals	(603,411)	-
Revaluation gains	1,600,153	425,534
End of the year	3,462,158	1,458,759

Gain on disposals of shares in Yangtze Power amounted to approximately RMB527 million (2006 and 2005: nil). There were no impairment provisions on available-for-sale investments in 2005, 2006 and 2007.

14. LAND USE RIGHTS

Details of land use rights are as follows:

	2007	As of December 31, 2006
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	2,242,026	1,977,738
Leases of over 50 years	27,182	35,742
	2,269,208	2,013,480

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15. GOODWILL

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

As of January 1, 2006	
Cost	671,796
As of December 31, 2006	
Cost	671,796
Movement in 2007:	
Opening net book value	671,796
Acquisitions	13,703
Deemed disposal (Notes 11& 34(d))	(24,287)
Transfer to investments in associates (Notes 11& 34(d))	(105,946)
Closing net book value	555,266
As of December 31, 2007	
Cost	555,266

Impairment tests for goodwill

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

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

	2007	2006
Huaiyin Power Company	118,596	118,596
Yueyang Power Company	100,907	100,907
Pingliang Power Company	107,735	107,735

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

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15. GOODWILL (CONT'D)

Impairment tests for goodwill (Cont'd)

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

Huaiyin Power Company	11.50%
Yueyang Power Company	9.31%
Pingliang Power Company	9.87%

Key assumptions used for value-in-use calculations:

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

Based on the assessments, no goodwill was impaired.

16. INVENTORIES, NET

Inventories comprised:

	2007	As of December 31, 2006
Fuel (coal and oil) for power generation	1,324,226	1,241,838
Material and supplies	1,025,211	926,191
	2,349,437	2,168,029
Less: provision for inventory obsolescence	(30,147)	(46,540)
	2,319,290	2,121,489

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

	2007	2006
Beginning of the year	(46,540)	(44,732)

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Provision	(666)	(4,235)
Write-offs	9,778	-
Reversal	7,281	2,427
End of the year	(30,147)	(46,540)

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17. OTHER RECEIVABLES AND ASSETS, NET

Other receivables and assets comprised the following:

	As of December 31,	
	2007	2006
Prepayments for inventories	429,189	285,465
Prepayments to contractors	30,480	96,286
Other prepayments	113,857	19,655
Total prepayments	573,526	401,406
Receivable from Jiangsu Power Grid Company for the construction of transmission facilities	53,353	53,310
Staff advances	8,756	10,377
Others	216,959	183,618
	279,068	247,305
Less: provision for doubtful accounts	(30,463)	(33,223)
Total other receivables, net	248,605	214,082
Subtotal	822,131	615,488
Due from other related parties – prepayments	560	621
Total	822,691	616,109

Other receivables and assets do not contain significant impaired assets. Movements of provision for doubtful accounts during the years are analyzed as follows:

	2007	2006
Beginning of the year	(33,223)	(33,223)
Provision	(33)	(3,732)
Reversal	1,499	3,474
Deemed disposal of a subsidiary	93	-
Write-off	1,201	258
End of the year	(30,463)	(33,223)

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17. OTHER RECEIVABLES AND ASSETS, NET (CONT'D)

As of December 31, 2007, there was no indication of impairment relating to other receivables which were not past due and no provision was made. Other receivables of RMB51 million (2006: RMB44 million) were past due but not impaired. These receivables were contracts bounded with repayment terms on demand. The ageing analysis of these other receivables was as follows:

	2007	As of December 31,	
		2006	
Between 1 to 2 years	11,869	6,305	
Between 2 to 3 years	4,318	2,100	
Over 3 years	35,246	35,463	
	51,433	43,868	

As of December 31, 2007, other receivables of RMB35 million (2006: RMB35 million) were impaired. The individually impaired receivables have been long outstanding without any repayment agreements in place or possibility of renegotiation. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these other receivables was as follows:

	2007	As of December 31,	
		2006	
Between 1 to 2 years	4,783	2,228	
Between 2 to 3 years	-	112	
Over 3 years	30,617	32,386	
	35,400	34,726	

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18. ACCOUNTS RECEIVABLE, NET

Accounts receivable comprised the following:

	2007	As of December 31, 2006
Accounts receivable	6,251,958	6,232,275
Notes receivable	1,674,933	1,133,981
	7,926,891	7,366,256
Less: provision for doubtful accounts	(50,573)	(50,573)
	7,876,318	7,315,683

The Company and its subsidiaries usually grant about one month's credit period to local power grid customers from the end of the month in which the sales are made. The Company and its subsidiaries do not hold any collateral as security.

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

	2007	2006
Beginning of the year	(50,573)	(58,433)
Reversal	-	5,111
Write-off	-	2,749
End of the year	(50,573)	(50,573)

Ageing analysis of accounts receivable was as follows:

	2007	2006
Within 1 year	7,737,783	7,054,280
Between 1 to 2 years	3,959	114,121
Between 2 to 3 years	100	51,554
Over 3 years	185,049	146,301
	7,926,891	7,366,256

As of December 31, 2007, the maturity period of the notes receivable ranged from 15 days to 28 months (2006: 1 month to 23 months).

As of December 31, 2007, accounts receivable of RMB51 million (2006: RMB52 million) were impaired. The amount of the provision was RMB51 million as of December 31, 2007 (2006: RMB51 million). This amount is mainly related to receivables of Yueyang Power Company. The Company had received the related guarantee payment from HIPDC. The ageing of these accounts receivable was as follows:

	As of December 31,	
	2007	2006
Between 2 to 3 years	-	51,554
Over 3 years	50,573	-
	50,573	51,554

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18. ACCOUNTS RECEIVABLE, NET (CONT'D)

As of December 31, 2007, there was no indication of impairment relating to accounts receivable which were not past due and no provision was made. Accounts receivable of RMB202 million (2006: RMB275 million) were past due but not impaired. This amount is mainly related to a receivable from Yueyang Power Company and the management believes that these receivables can be recovered in the future period. HIPDC had provided guarantee to the Company on the Company's share of such an account receivable balance of approximately RMB140 million when the Company acquired the subsidiary from HIPDC. The Company received the guarantee payment from HIPDC as of December 31, 2006. The ageing analysis of these accounts receivable was as follows:

	As of December 31,	
	2007	2006
2 months to 1 year	63,226	14,521
Between 1 to 2 years	3,959	114,121
Between 2 to 3 years	100	-
Over 3 years	134,476	146,301
	201,761	274,943

19. AUTHORIZED SHARE CAPITAL AND PAID-IN CAPITAL

	As of December 31,	
	2007	2006
A shares, par value of RMB1.00 each	9,000,000	9,000,000
Overseas listed foreign shares, par value of RMB1.00 each	3,055,383	3,055,383
Total	12,055,383	12,055,383

As of December 31, 2007, the authorized share capital of the Company was RMB12,055,383,440 (2006: RMB12,055,383,440), divided into 12,055,383,440 shares (2006: 12,055,383,440 shares) of RMB1.00 each (2006: RMB1.00 each).

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

20. DEDICATED CAPITAL

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

In relation to the profit appropriation plan for the year ended December 31, 2007, the Board of Directors resolved on March 25, 2008 that to appropriate 10% (2006 and 2005: 10%) of profit attributable to equity holders of the Company as determined under the PRC accounting standards to the statutory surplus reserve fund.

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20. DEDICATED CAPITAL (CONT'D)

In accordance with the Articles of Association, earnings available for distribution by the Company will be based on the lower of the amounts determined in accordance with (a) the PRC accounting standards and (b) IFRS. The amount of distributable profit resulting from the current year operation after appropriation to dedicated capital for the year ended December 31, 2007 was approximately RMB5.40 billion (2006 and 2005: RMB5.00 billion and RMB3.93 billion). The cumulative balance of distributable profit as of December 31, 2007 was approximately RMB17.22 billion (2006: RMB15.30 billion).

21. DIVIDENDS

On March 25, 2008, the Board of Directors proposed a cash dividend of RMB0.30 per share, totaling approximately RMB3,617 million. This proposal is subject to the approval of the shareholders at the annual general meeting. These financial statements do not reflect this dividends payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings for the year ending December 31, 2008.

On May 22, 2007, the shareholders approved the declaration of cash dividends of RMB0.28 per share, totaling approximately RMB3,376 million in their annual general meeting.

On June 13, 2006, the shareholders approved the declaration of cash dividends of RMB0.25 per share, totaling approximately RMB3,014 million in their annual general meeting.

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22. LONG-TERM LOANS

	As of December 31, 2007			As of December 31, 2006		
	Original currency '000	Annual interest rate	Amount	Original currency '000	Annual interest rate	Amount
Loans from Huaneng Group						
Unsecured						
RMB						
- Fixed rate	2,800,000	4.32% - 5.67%	2,800,000	2,800,000	4.05% - 5.02%	2,800,000
Bank loans						
Secured						
RMB						
- Fixed rate	-	-	-	60,000	5.18% - 6.16%	60,000
Unsecured						
RMB						
- Fixed rate	30,684,366	3.60%-7.05%	30,684,366	30,035,770	3.60% - 6.84%	30,035,770
US\$						
- Fixed rate	417,630	5.95%-6.97%	3,050,616	513,549	5.95% - 6.97%	4,010,150
- Variable rate	47,455	5.15%-5.51%	346,639	53,782	4.13% - 5.49%	419,969
€						
- Fixed rate	60,946	2%	650,108	66,268	2%	680,344
			34,731,729			35,146,233
			34,731,729			35,206,233
Other loans						
Secured						

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RMB						
- Fixed rate	-	-	130,000	5.27%	130,000	
Unsecured						
RMB						
- Fixed rate	-	-	123,625	4.94% - 6.12%	123,625	
US\$						
- Variable rate	10,000	5.80%-5.87%	73,046	12,857	5.80%	100,398
JPY						
- Variable rate	833,333	5.80%	53,387	1,071,429	5.80%	70,318
			126,433			294,341
			126,433			424,341

As of December 31, 2006, the secured other long-term loans of RMB130 million were secured by tariff collection right. Such loans were fully repaid in 2007.

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22. LONG-TERM LOANS (CONT'D)

The maturity of long-term loans is as follows:

	Loans from Huaneng Group		Bank loans		Other loans	
	As of December 31, 2007	2006	As of December 31, 2007	2006	As of December 31, 2007	2006
1 year or less	-	-	4,183,391	3,140,393	36,124	191,562
More than 1 year but not more than 2 years	-	-	9,661,391	3,956,803	36,124	98,259
More than 2 years but not more than 3 years	-	-	8,654,175	9,687,803	36,124	78,259
More than 3 years but not more than 4 years	-	-	3,707,389	3,849,141	18,061	38,259
More than 4 years but not more than 5 years	-	-	2,597,389	3,405,639	-	18,002
More than 5 years	2,800,000	2,800,000	5,927,994	11,166,454	-	-
	2,800,000	2,800,000	34,731,729	35,206,233	126,433	424,341
Less: amounts due within 1 year included under current liabilities	-	-	(4,183,391)	(3,140,393)	(36,124)	(191,562)
	2,800,000	2,800,000	30,548,338	32,065,840	90,309	232,779

The analysis of the above is as follows:

	As of December 31,	
	2007	2006
Loans from Huaneng Group		
- Not wholly repayable within five years	2,800,000	2,800,000
Bank loans		
- Wholly repayable within five years	24,081,310	19,307,871
- Not wholly repayable within five years	10,650,419	15,898,362
	34,731,729	35,206,233
Other loans		
- Wholly repayable within five years	126,433	424,341

The interest payment schedule of long-term loans in the future years are summarized as follows:

	As of December 31,	
	2007	2006
1 year or less	2,267,851	2,127,990
More than 1 year but not more than 2 years	1,816,247	1,927,663
More than 2 years but not more than 5 years	2,622,125	3,528,522
More than 5 years	1,331,666	2,678,582
	8,037,889	10,262,757

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23. LONG-TERM BONDS

The Company and its subsidiaries issued RMB1 billion, RMB1.7 billion and RMB3.3 billion of unsecured long-term bonds bearing coupon rates of 5.67%, 5.75% and 5.90% per annum respectively in December 2007. These bonds are denominated in RMB and will mature in 5 years, 7 years and 10 years from their respective issue dates at their nominal values respectively. Interest expense on these bonds is calculated using the effective interest rates of 6.13%, 6.10% and 6.17% per annum. Interests of these bonds are payable per annum and the principals are to be paid one-off when the bonds fall due. The amounts of interest paid per annum during the tenure of the bonds are RMB57 million, RMB98 million and RMB195 million respectively.

24. OTHER NON-CURRENT LIABILITIES

Including in balances of other non-current liabilities, balances of government grants of the Company and its subsidiaries amounted to RMB423 million (2006: RMB272 million). The related balances at Company level were RMB308 million (2006: RMB203 million). Such grants represented primarily subsidies for the construction of desulphurization equipment.

In 2007, the government grants which were credited to the income statement amounted to RMB14.57 million (2006 and 2005: RMB2.14 million and RMB3.64 million).

25. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprised:

	As of December 31,	
	2007	2006
Accounts and notes payable	2,072,876	2,037,447
Amounts received in advance	844,445	1,207,776
Payables to contractors for construction	4,511,988	2,993,257
Other payables to contractors	336,841	914,856
Accrued interest	181,089	195,643
Others	902,124	872,808
	8,849,363	8,221,787

As of December 31, 2007, balances of accounts payable and other liabilities include accrued interest to Huaneng Finance and Huaneng Group amounting to approximately RMB4.7 million and RMB2.9 million (2006: RMB7.6 million and RMB10 million) respectively.

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25. ACCOUNTS PAYABLE AND OTHER LIABILITIES (CONT'D)

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

	As of December 31,	
	2007	2006
Accounts and notes payable		
Within 1 year	1,999,247	2,028,121
Between 1 to 2 years	71,515	6,170
Over 2 years	2,114	3,156
Subtotal	2,072,876	2,037,447
Amounts due to other related parties of trading in nature		
Within 1 year	276,787	38,336
Over 2 years	108	108
Subtotal	276,895	38,444
Total	2,349,771	2,075,891

26. TAXES PAYABLE

Taxes payable comprises:

	As of December 31,	
	2007	2006
VAT payable	631,046	718,602
Income tax payable	211,418	373,573
Others	112,870	99,608
	955,334	1,191,783

27. SHORT-TERM BONDS

The Company and its subsidiaries have repaid, in May 2007 and June 2007 respectively, unsecured short-term bonds of RMB500 million and RMB4,500 million, which bore coupon rates of 3.12% and 3.35% per annum at par. Effective interest rates on these bonds were 3.53% and 3.77% per annum, respectively.

Subsequently, the Company and its subsidiaries issued RMB5 billion of unsecured short-term bonds at coupon rate of 3.84% per annum on August 9, 2007. These bonds are denominated in RMB and will mature in 364 days from their issue date at their nominal values. Effective interest rate on these bonds is 4.26% per annum.

28. SHORT-TERM LOANS

Other than those discounted notes receivables described below, short-term loans are denominated in RMB, unsecured and bear interest from 4.35% to 6.72% per annum for the year ended December 31, 2007 (2006 and 2005: 4.30% to 5.51% and 4.30% to 5.76% per annum).

As of December 31, 2007, notes receivables of approximately RMB303 million (2006: RMB338 million) are discounted and recorded as collateralized short-term loans.

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29. DEFERRED INCOME TAXES

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

	As of December 31,	
	2007	2006
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	124,019	34,501
- Deferred income tax assets to be recovered within 12 months	87,635	63,928
	211,654	98,429
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	(1,009,965)	(945,193)
- Deferred income tax liabilities to be recovered within 12 months	(82,580)	(133,704)
	(1,092,545)	(1,078,897)
	(880,891)	(980,468)

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

	2007	2006
Beginning of the year	(980,468)	(1,093,700)
Deemed disposal of Sichuan Hydropower (Note 11)	314,309	-
Acquisition	(5,614)	-
Credited to the income statement (Note 32)	195,300	177,062
Charged directly to equity	(404,418)	(63,830)
End of the year	(880,891)	(980,468)

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29. DEFERRED INCOME TAXES (CONT'D)

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

Deferred income tax assets:

	Amortization of land use rights	Provision for impairment losses	Staff benefits	Accrued Depreciation expenses	Tax refund on purchase of domestically manufactured equipment	Others	Total
As of January 1, 2006	10,591	68,652	13,966	-	-	59,273	152,482
(Charged) / Credited to the income statement	(221)	10,027	26,195	33,164	6,449	(14,859)	60,755
As of December 31, 2006	10,370	78,679	40,161	33,164	6,449	44,414	213,237
Deemed disposal of Sichuan Hydropower Acquisition	-	(6,483)	(2,008)	(6,979)	(1,301)	-	(16,771)
Credited / (Charged) to the income statement	6,311	(26,666)	(16,007)	10,985	1,609	126,742	99,396
As of December 31, 2007	16,681	45,530	22,146	37,170	8,197	126,742	297,302

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

Deferred income tax liabilities:

	Fair value gains	Amortization of	Amortization of	Depreciation	Others	Total
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		goodwill and negative goodwill	land use rights			
As of January 1, 2006	(112,405)	(186,221)	(52,814)	(887,378)	(7,364)	(1,246,182)
(Charged) / Credited to the income statement	(15,027)	36,528	(5,405)	100,211	-	116,307
Charged directly to equity	(63,830)	-	-	-	-	(63,830)
As of December 31, 2006	(191,262)	(149,693)	(58,219)	(787,167)	(7,364)	(1,193,705)
Deemed disposal of Sichuan Hydropower	-	-	6,043	325,037	-	331,080
Acquisition	-	-	(889)	(6,165)	-	(7,054)
(Charged) / Credited to the income statement	(13,070)	(4,083)	(14,064)	122,815	4,306	95,904
Charged directly to equity	(404,418)	-	-	-	-	(404,418)
As of December 31, 2007	(608,750)	(153,776)	(67,129)	(345,480)	(3,058)	(1,178,193)

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29. DEFERRED INCOME TAXES (CONT'D)

In March 2007, the PRC government promulgated the CIT Law which will be effective from January 1, 2008. The CIT Law will impose a single income tax rate of 25% for both domestic and foreign investment enterprises in due course by 2012.

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

Year of expiry	As of December 31,	
	2007	2006
2007	N/A	71,125
2008	-	-
2009	12,970	12,970
2010	30,252	183,127
2011	46,574	176,934
2012	225,766	N/A
	315,562	444,156

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30. ADDITIONAL FINANCIAL INFORMATION ON CONSOLIDATED BALANCE SHEETS

As of December 31, 2007, the net current liabilities of the Company and its subsidiaries amounted to approximately RMB12,826 million (2006: RMB13,278 million). On the same date, total assets less current liabilities was approximately RMB92,920 million (2006: RMB87,096 million).

31. HOUSING SCHEMES

In accordance with the PRC housing reform regulations, the Company and its subsidiaries are required to make contributions to the state-sponsored housing fund at 10% - 27% (2006 and 2005: 7% - 27%) of the specified salary amount of the PRC employees. At the same time, the employees are required to make contributions out of their payroll equal to the contributions of the Company and its subsidiaries. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended December 31, 2007, the Company and its subsidiaries contributed approximately RMB201 million (2006 and 2005: RMB198 million and RMB147 million) to the fund.

In addition, the Company and its subsidiaries provided housing benefits to certain employees to enable them to purchase living quarters from the Company and its subsidiaries at a substantial discount. Such housing benefits represent the difference between the cost of the staff quarters sold to and the net proceeds collected from the employees. The provision of housing benefits is expected to benefit the Company and its subsidiaries over the estimated remaining average service life of the relevant employees and is recorded as other non-current assets and amortized over the remaining average service life of the relevant employees which is estimated to be approximately 10 years. For the year ended December 31, 2007, the housing benefits being amortized by the Company and its subsidiaries to the employees amounted to approximately RMB38 million (2006 and 2005: RMB39 million).

The Company and its subsidiaries have no further obligation for housing benefits.

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32. INCOME TAX EXPENSE

Income tax expense comprised:

	For the year ended December 31,		
	2007	2006	2005
Current income tax expense	1,033,570	1,304,761	1,105,461
Deferred income tax (Note 29)	(195,300)	(177,062)	(61,164)
	838,270	1,127,699	1,044,297

No Hong Kong profits tax has been provided as there was no estimated assessable profits in Hong Kong for the year (2006 and 2005: nil). The reconciliation of the effective income tax rate from the statutory income tax rate in the PRC is as follows:

	For the year ended December 31,		
	2007	2006	2005
Average statutory tax rate	18.03%	19.73%	20.83%
Effect of tax holiday	(3.86%)	(4.60%)	(3.84%)
Tax credit relating to domestically manufactured equipment*	(2.24%)	-	-
Others	(0.48%)	(1.06%)	(1.15%)
Effective tax rate	11.45%	14.07%	15.84%

* This represented tax credit granted to certain power plants on their purchases of certain domestically manufactured equipment upon the approval of the tax bureaus.

The average statutory tax rate for the years ended December 31, 2007, 2006 and 2005 represented the weighted average tax rate of the Company and its subsidiaries calculated on the basis of the relative amounts of profit before tax and the applicable statutory tax rates.

The aggregated effect of the tax holiday was approximately RMB282 million for the year ended December 31, 2007 (2006 and 2005: RMB369 million and RMB255 million).

33. EARNINGS PER SHARE

The calculation of basic earnings per share is done based on the profit attributable to the equity holders of the Company of approximately RMB6,161 million (2006 and 2005: RMB6,071 million and RMB4,872 million) and the weighted average number of approximately 12,055 million (2006 and 2005: 12,055 million) outstanding ordinary shares during the year.

There was no dilutive effect on earnings per share since the Company had no dilutive potential ordinary shares for the years ended December 31, 2007, 2006 and 2005.

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34. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOW

(a) Analysis of cash and cash equivalents

Cash and cash equivalents comprised the following:

	As of December 31,		
	2007	2006	2005
Cash in RMB	528	1,327	1,042
Current deposits			
RMB	7,310,626	3,203,712	2,632,493
US\$ (RMB equivalent)	1,111	2,153	14,130
Total cash and cash equivalents	7,312,265	3,207,192	2,647,665

(b) Undrawn borrowing facilities

As of December 31, 2007, the Company and its subsidiaries had undrawn unsecured borrowing facilities amounting to approximately RMB18.70 billion (2006: RMB25.61 billion). Management expects to drawdown the available facilities in accordance with the level of working capital and / or planned capital expenditure of the Company and its subsidiaries.

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34. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOW (CONT'D)

(c) Acquisition of a subsidiary

	Amount
Property, plant and equipment, net (Note 10)	2,573,327
Land use rights	46,941
Other non-current assets	60,298
Cash and cash equivalents	259,924
Other current assets	97,887
Borrowings	(1,975,000)
Deferred income tax liabilities (Note 29)	(5,614)
Accounts payable and other liabilities	(323,152)
Other current liabilities	(36,848)
Total assets and liabilities acquired	697,763
Less: minority interests	(279,105)
Net assets acquired	418,658
Add: goodwill	1,342
Satisfied by cash	420,000
Less: cash and cash equivalents acquired	(259,924)
Net cash outflow in respect of the purchase of a subsidiary	160,076

(d) Non-cash transactions

Except for the deemed disposal of Sichuan Hydropower, there is no material non-cash transaction for the year ended December 31, 2007. The amounts of assets and liabilities other than cash and cash equivalents in Sichuan Hydropower upon deemed disposal, were summarized by each major category as follows:

	Amount
Property, plant and equipment, net (Note 10)	10,913,450
Land use rights	20,578
Other non-current assets	90,424
Goodwill (Note 15)	130,233
Inventories, net	17,704
Other receivables and assets, net	28,669
Accounts receivable, net	184,135
Borrowings	(6,921,540)
Other non-current liabilities	(37,847)
Deferred income tax liabilities (Note 29)	(314,309)
Accounts payable and other liabilities	(526,438)
Other current liabilities	(164,615)

	3,420,444
Less: minority interests	(2,216,278)
	1,204,166
Transfer to investments in associates (Note 11)	(1,544,206)
Gain on deemed disposal of Sichuan Hydropower	17,864
Cash outflow upon deemed disposal of Sichuan Hydropower	(322,176)

There is no material non-cash transaction for the years ended December 31, 2006 and 2005.

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35. COMMITMENTS

(a) Capital and operational commitments

- (i) Commitments mainly relate to the construction of new power projects, certain complementary facilities and renovation projects for existing power plants and the purchase of coal. Details of such commitments are as follows:

	As of December 31,	
	2007	2006
Contracted but not provided for		
- purchase of inventories	3,145,904	2,829,393
- construction	15,418,352	14,558,971
Sub-total	18,564,256	17,388,364
Authorized but not contracted for		
- purchase of inventories	3,579,423	531,360
- construction	2,626,945	2,166,046
Sub-total	6,206,368	2,697,406
Total	24,770,624	20,085,770

- (ii) From 2004 to 2007, the Company also entered into various long-term agreements subject to termination only under certain limited circumstances for the procurement of coal from 2005 to 2009 for use in power generation. In most cases, these agreements contain provisions for price escalations and minimum purchase level clauses. Purchases for the years ended December 31, 2007, 2006 and 2005 were approximately RMB7,852 million, RMB5,701 million and RMB4,619 million respectively. The future purchase commitments under the above agreements are as follows:

	As of December 31,	
	2007	2006
2007	N/A	9,457,131
2008	8,760,250	5,512,180
2009	7,808,250	5,512,180
	16,568,500	20,481,491

- (iii) Jinling Power Company entered into a Gas Purchase Agreement with PetroChina Company Limited ("PTR") on December 29, 2004, pursuant to which Jinling Power Company purchases gas from PTR from the date on which it commenced commercial operations to December 31, 2023. According to the agreement, Jinling Power Company is required to pay to PTR at a minimum annual price equivalent to 486.9 million standard cubic meter

of gas from 2008 to the end of gas supply period, which amounted to approximately RMB681 million based on current market price as of December 31, 2007. The purchase price is negotiated annually between the contracting parties based on the latest ruling set out by the National Development and Reform Commission.

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35. COMMITMENTS (CONT'D)

(b) Operating lease commitments

The Company has various operating lease arrangements with HIPDC for land and buildings (see Note 7(b)). Some of the leases contain renewal options and most of the leases contain escalation clauses. Lease terms do not contain restrictions on the Company's activities concerning dividends, additional debts or further leasing.

Total future minimum lease payments under non-cancelable operating leases are as follows:

	As of December 31,	
	2007	2006
Land and buildings		
- not later than 1 year	29,254	29,254
- later than 1 year and not later than 2 years	3,253	3,253
- later than 2 years and not later than 5 years	9,760	9,760
- later than 5 years	107,885	111,138
	150,152	153,405

In addition, in accordance with a 30-year operating lease agreement signed by Huaneng Dezhou Power Plant ("Dezhou Power Plant") and Shandong Land Bureau for the land occupied by Dezhou Power Plant Phases I and II in June 1994, annual rental amounted to approximately RMB30 million effective from June 1994 and is subject to revision at the end of the fifth year from the contract date. Thereafter, the annual rental is subject to revision once every three years. The increment for each rental revision is restricted to no more than 30% of the previous annual rental amount. For the year ended December 31, 2007, the annual rental were approximately RMB30 million (2006 and 2005: approximately RMB30 million).

36. FINANCIAL GUARANTEES

	As of December 31,	
	2007	2006
Financial guarantees		
- granted to an associate	86,063	123,250

Based on historical experience, no claims have been made against the Company and its subsidiaries since the dates of granting the financial guarantees described above.

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37. BUSINESS RISK

The Company and its subsidiaries conduct their operations in the PRC and accordingly investing in the shares of the Company and its subsidiaries are subject to the risks of, among others, economic and legal environment in the PRC, restructuring of the PRC power industry and regulatory reform, new regulation pertaining to setting of power tariff and availability of fuel supply at stable price.

For the year ended December 31, 2007, the Company and its subsidiaries sold electricity to four (2006 and 2005: three and four) major customers, each of which amounted to approximately 10% or more of the operating revenue. In aggregation, these customers accounted for approximately 55% (2006 and 2005: 45% and 57%) of the operating revenue of the Company and its subsidiaries.

Signature

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Huaneng Power International, Inc.

By: /s/ Gu Biquan
Name: Gu Biquan
Title: Vice President and
Secretary to the Board

Date: April 18, 2008