

SHENZHEN NANSHAN POWER STATION CO., LTD.



SHENZHEN NANSHAN POWER STATION CO., LTD.

Annual Report 2003

Chairman of the Board: Liu Deyu

March 17, 2004

Important Notes

The Board of Directors of Shenzhen Nanshan Power Station Co., Ltd. (hereinafter referred to as the Company) and its directors individually and collectively accept full responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there is neither any omission of material facts, untrue presentations, nor any misleading statement contained in the information herein.

Wang Jianbin, Vice Chairman of the Board, Yu Chunling, Director of the Company and Liu Zhanjun, Independent Director of the Company were absent from the Board meeting due to business. Of them, Vice Chairman of the Board Wang Jianbin and Director Yu Chunling respectively entrusted Director Zhong Chengli and Chairman of the Board Liu Deyu to attend the Board meeting and voted on his/her behalf; Independent Director Liu Zhanjun entrusted Independent Director Huang Sujian to attend the Board meeting and voted on his behalf.

Guangzhou Yangcheng Certified Public Accountants Ltd. and PricewaterhouseCoopers Certified Public Accountants respectively audited the Company's financial report and issued the standard unqualified Auditor's Report for the Company.

Mr. Liu Deyu, Chairman of the Board, Mr. Zhang Renyi, General Manager, Mr. Lu Xiaoping, CFO and Mr. Chen Xueshun, Director of Financing Dept. guarantee the accuracy and completeness of the financial report enclosed in this annual report.

This annual report was prepared in both Chinese and English. Should there be any difference in interpretation of the two versions, the Chinese version shall prevail.

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SHENZHEN NANSHAN POWER STATION CO., LTD.

I. Company Profile

1. Legal Name in Chinese: 深圳南山热电股份有限公司
Legal Name in English: SHENZHEN NANSHAN POWER STATION CO., LTD.
2. Legal Representative: Liu Deyu
3. Secretary of the Board of Directors: Fu Bo
Tel & Fax: (86)755-26053918
E-mail: fb@nspower.com.cn
Stock & Securities Affairs Representative: Hu Qin
Tel & Fax: (86)755-26053964
E-mail: huqin@nspower.com.cn
Contract Address: No.18, Yueliangwan Avenue, Nanshan District, Shenzhen
4. Registered Address/Office Address: No.18, Yueliangwan Avenue, Nanshan District, Shenzhen
Post Code: 518054
E-mail: public@nspower.com.cn
5. Newspapers Designated for Disclosing Information of the Company:
China Securities, Securities Times and Ta Kung Pao
Internet Web Site Designated by China Securities Regulatory Commission for Publishing the Annual Report: <http://www.cninfo.com.cn>
Place Where the Annual Report is Prepared and Placed: Secretariat of the Board
6. Stock Exchange Listed with: Shenzhen Stock Exchange
Short Form of the Stock and Stock Code: Shen Nan Dian A 000037
Shen Nan Dian B 200037
7. Other Relevant Information:
Initial Registration Date: April 6, 1990
Initial Registration Place: Nanshan Jiaozui, Nanshan District, Shenzhen
Registration Place after the Change:
No.18 Yueliangwan Avenue, Nanshan District, Shenzhen (due to change of the road number)
Registered number of the corporate business license for enterprise legal person: QGYSZ Zi. No.101591
Registration Number of Tax.: GTF Zi No.440305930100069 (14)
Names and office addresses of Certified Public Accountants engaged:
Domestic: Guangzhou Yangcheng Certified Public Accountants & Ltd.
Address: 25/F, Jianlibao Bldg., No.410, Dongfeng Middle Road, Guangzhou, Guangdong
International: PricewaterhouseCoopers Certified Public Accountants
Address: 23/F, Sunning Plaza, No.10, Hysan Avenue, Tung Lo Wan, Hong Kong
8. Definitions :
The Company refers to Shenzhen Nanshan Power Station Co., Ltd.
Xiefu Company refers to Shenzhen Xiefu Oil Supply Co., Ltd., whose shares are held by the Company by 50%.
New Power Company refers to Shenzhen New Power Industrial Co., Ltd. whose shares are held by the Company by 100%.
Xingdesheng Company refers to the wholly-owned overseas subsidiary, HongKong Xingdesheng Co., Ltd..
Jinbiwan Company refers to Shenzhen Jinbiwan Investment & Development Co., Ltd..
Power Development Company refers to Zhongshan Power Development Company.

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Tongling Shenneng Company refers to Anhui Province Tongling Shenneng Power Supply Co., Ltd..

CSRC refers to China Securities Regulatory Commission.

Shenzhen Securities Regulatory Office refers to CSRC Shenzhen Securities Regulatory Management Office.

Shenzhen Power Supply Company refers to Guangdong Guangdong Group Co., Ltd., Shenzhen Power Supply Branch.

Shenzhen Nanshan (Zhongshan) Power Station Co., Ltd. refers to Shenzhen Nanshan (Zhongdshan) Power Station Co., Ltd., whose shares are held by the Company by 80%.

Designated Newspapers refers to China Securities, Securities Times, Ta Kung Pao.

RMB: Unless otherwise specified, the standard currency in the financial data or unit refers to Renminbi.

II. Summary of Accounting Highlight and Bussiness Highlight**(I) Major accounting data as of the year 2003**

Unit: RMB'000

Items	Amount
Turnover	1,863,937
Operating profit	557,517
Profit before tax	546,587
Profit attributable to shareholders	475,995
Net cash flows arising from operating activities	369,313
Increase of cash and cash equivalents	-76,838

(II) Explanation of difference in net profit audited by domestic CPAs and international CPAs

In 2003, the reason of the difference amounting to RMB 4,884,600 between the foreign net profit and domestic consolidated net profit is as follows:

1. The method of accounting disposal for RMB 44,852,700 dividend given up by Jinbiwan Company is different. According to the resolution of the Shareholders' General Meeting of Jinbiwan Company held on Mar. 11, 2003, Proposal on Disposal of Non-distributed Profit of New Electric Power Company examined and approved by the 4th Extraordinary Shareholders' General Meeting held on Apr. 17, 2003 and Resolution on Profit Distribution for 2001 and 2002 of the Shareholders' General Meeting of New Electric Power Company held on June 13, 2003, the shareholder of New Electric Power Company, Jinbiwan Company agreed not to share the bonus distribution of New Electric Power Company as the proportion of equity held by it but calculate and share the investment income in the former half of 2001 and 2002 of New Electric Power Company as income ratio of net assets of 2001 and 2002 of the Company and agreed not to share non-distributed profit in the later half of 2002 of New Electric Power Company, concerning exceeding distributed profit amounting to RMB 44,852,700 calculated as the above method, the Company and its wholly-owned subsidiary, Xingdesheng Company share it according to the corresponding proportion of equity of New Electric Power Company respectively held by them. In the account settled as accounting rule of HK, the Company took net amount amounting to RMB 42,951,100 after deducting enterprise income tax payable totally RMB 1,901,600 from RMB 44,852,700 dividend given up by Jinbiwan Company as Negative Goodwill dividing 15 years into income of each year according to generally accepted accounting principle of HK and the current income transferred-into in this year was RMB 2,863,400 according to generally accepted accounting principle of HK; but in the account settled as Chinese accounting rule, the Company carried forward net amount amounting to RMB 42,951,100 after deducting enterprise income tax payable totally RMB 1,901,600 from RMB 44,852,700 dividend given up by Jinbiwan Company into credit of Capital Public Reserve according to relevant regulation of accounting system.

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2. The method of accounting disposal for the difference amounting to RMB 30,330,800 between the investment cost caused by the Company's purchasing 49% equity of New Electric Power Company held by Jinbiwan Company under proportion of shareholder's equity of the invested company the Company should share is different. In the account settled as accounting rule of HK, the Company averagely amortized the credit balance difference of equity investment totally RMB 30,330,800 as Negative Goodwill dividing 15 years into income of each year according to generally accepted accounting principle of HK and the current income transferred-into in this year was RMB 2,022,100; but in the account settled as Chinese accounting rule, the Company transferred the credit difference totally RMB 30,330,800 of equity investment as provision for equity investment into the credit of Capital Public Reserve according to Implementation of Enterprise Accounting System and Answers (II) of Relevant Problems of Related Accounting Rule promulgated by the State Ministry of Finance.

(III) Changes in shareholders' equity in the report period

Unit: RMB'000

Item	Capital share	Capital share reserve	Statutory surplus public welfare fund	Surplus public welfare fund	Welfare fund	Reserve of exchange balance	Retaining surplus	Total
Amount at the period-begin	547,966	215,488	139,662	22,749	51,208	572	296,800	1,274,445
Increase in report period		4,885	58,005		29,002	60	475,995	567,947
Decrease in the report period					533		322,038	322,571
Amount at the period-end	547,966	220,373	197,667	22,749	79,677	632	450,757	1,519,821

Reasons of change:

1. Capital public reserve has increased by RMB 4,885,000 because the Company reckoned the relevant amortization of negative goodwill occurred due to purchasing of a subsidiary company's equity withdrew amounting to RMB 4,885,000 into capital public reserve.
2. Increased by RMB 58,005,000 of statutory surplus public reserve was because the Company withdrew statutory surplus public reserve based on 10% of net profit.
3. Increased by RMB 29,002,000 of public welfare reserve was because the Company withdrew public welfare reserve based on 5% of net profit; decreased by RMB 533,000 was because the Company additionally paid the pension funds (from Jan. to Mar. 2003) from the public welfare fund according to the Circular on Printing and Issuing the Plan for Adding Pension Insurance in Shenzhen Enterprises promulgated by Shenzhen Municipal Government with SF [1997] No. 182 document
4. Increased by RMB 475,995,000 of retained profit was due to the net profit realized in the report year; decreased by RMB 322,038,000 of retained profit was because: (1) distributed capital public reserve and welfare fund amounting to RMB 87,007,000 and the telophase dividend distributed of RMB 230,146,000; (2) please refer to No. 1.

III. Changes in Share Capital & Particulars about Shareholders**(I) Changes in share capital****1. Statement of changes in shares (Ended Dec. 31, 2003)**

In shares

Items	Before the Changes	Increase/Decrease in the Change (+, -)						After the Change
		Share allotment	Bonus shares	Shares converted from public reserve	Shares issued additionally	Others	Subtotal	

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I. Unlisted Shares								
1. Sponsor's shares								
Including:								
State-owned shares	85,538,864							85,538,864
Including: State shares	30,829,682							30,829,682
State-owned legal person shares	54,709,182							54,709,182
Domestic legal person shares	113,783,159							113,783,159
Foreign legal person shares	113,531,251							113,531,251
Others								
2. Raised legal person shares	61,700,661							61,700,661
3. Inner employees' shares								
4. Preference shares or others								
Total unlisted shares	374,553,935							374,553,935
II. Listed shares								
1. RMB ordinary shares	64,846,135							64,846,135
2. Domestically listed foreign shares	108,565,928							108,565,928
3. Foreign listed foreign shares								
4. Others								
Total listed shares	173,412,063							173,412,063
III. Total shares	547,965,998							547,965,998

(II) Issuing and listing

1. The Company issued neither any shares nor derived securities over the past three years ended the report period.

2. As approved by CSRC on Company Zi [2000] No. 241 document promulgated by China Securities Regulatory Commission, the Company implemented the share allotment plan on the basis of 3-for-10 with the total share capital 356.40 million shares as at the end of 1999 as the base at the placing price of RMB 13.4 per share. The valid term for payment of the placed shares was from February 19 to March 2, 2001. The totally 13.366 million RMB ordinary shares were actually placed. Partial shares placed to the public amounting to 10.098 million shares were listed with Shenzhen Stock Exchange for trading commencing from March 27, 2001, while 26,730 shares placed to the directors, supervisors and senior executives of the Company were frozen temporarily. After the placing, the Company's total share capital increased to 369,766,000 shares. (The relevant information was disclosed on the designated newspapers dated March 24, 2001).

On April 12, 2001, the Company held Shareholders' General Meeting 2000 at which the Company's Plan on Implementing 2000 Dividend Distribution and Converting the Capital Public Reserve into Shares Capital was approved. Based on the total share capital 369,766,000 shares after the share allotment, the Company distributed bonus shares at the rate of 2.409632 shares for every 10 shares and cash dividend on RMB 0.008864 for every 10 shares. The date of equity record was May 8, 2001 and ex-dividend date was May 9, 2001. On May 14, 2001, the Company completed the profit distribution. After the dividend distribution and converting the capital public reserve into shares capital, the Company's total share capital increased to 547,965,998 shares. (The relevant information was disclosed on the designated newspapers dated April 26, 2001).

3. There are no inner employees' shares in the Company.

(III) About shareholders

1. At the end of the report period, the Company had totally 24,667 shareholders, including 10,925 shareholders of A shares and 13,742 shareholders of B shares.

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Shareholders	Amount at the period-end	Proportion of shares held to share capital (%)	Shares pledged or frozen	Status of shares
Shenzhen Guangju Electronic Investment Co., Ltd.	125,845,702	22.97	Nil	Legal person shares
Hong Kong Nam Hoi (International) Limited	83,748,408	15.28	Nil	Foreign legal person shares
Shenzhen Energy Group Co., Ltd.	62,697,297	11.44	Nil	Legal person shares
Shenzhen State Power Science and Technology Development Co., Ltd.	54,709,180	9.98	Nil	Legal person shares
Tengda Property Co., Ltd.	47,553,343	8.68	Nil	Foreign legal person shares
DEUTSCHE BANK AG LONDON	2,939,319	0.54	Unclear	B Shares
Western Securities Co., Ltd.	2,928,856	0.53	Unclear	A Shares
SKANDIA GLOBAL FUNDS PLC	2,555,371	0.47	Unclear	B Shares
Feng He Value Securities Investment Funds	2,403,076	0.44	Unclear	A Shares
National Combination of 101 Social Insurance Funds	2,183,498	0.40	Unclear	A Shares

Notes:

- (1) Shenzhen Energy Group Co., Ltd. held 30,829,682 shares on behalf of the State.
- (2) Shenzhen Energy Group Co., Ltd., the Company's No. 3 shareholder, indirectly held 100% equity of Hong Kong Nam Hoi (International) Limited, the Company's No. 2 shareholder as well as the Company's foreign legal person shareholder.
- (3) Shareholders of No. 6 to No. 10 were social public shareholders. The Company is not aware of their associated relationships or whether belongs to the persons acting in concert regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies.

3. About the holding shareholder

The Company has no holding shareholder.

4. Other legal person shareholder holding over 10% of the company's total share capital

The Company's first largest shareholder is Shenzhen Energy Group Co., Ltd. holding directly and indirectly 26.72% of the Company's shares. Legal representative: Tian Jufeng; date of foundation: July 15, 1985, registered capital: RMB 860 million; enterprise type: company with limited liability (state-owned sole corporation); business scope: investing and initiating industrial enterprises (specific projects subject to approval by the authority), operation of import and export business (to handle based on SMGSZZ No. 147 document); domestic commerce and business of supply and marketing of material (excluding, franchise, special controlling and exclusive selling commodity); conventionality energy (including electricity, heat, coal, light oil, heavy oil and pomace oil), development, production and purchase and sale of new energy; design, construction and training of various energy project, undertaking the relevant construction project; investment and operation of transportation business (highway, littoral and oceanic). The shares held by the Energy Group have not been pledged and frozen.

Shenzhen Guangju Electronic Investment Co., Ltd. held 22.97% of the Company's total shares; legal representative: Zhong Chengli; date of foundation: May 31, 1989; registered capital: RMB 11.11 million; enterprise type: company with limited liability; business scope: initiating industrial

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enterprises and electric power investment (with specific projects subject to approval by authority). The shares held by the Energy Group have not been pledged and frozen.

Hong Kong Nam Hoi (International) Limited held 15.28% of the Company's total shares; legal representative: Yu Chunling; date of establishment: May 15, 1985; registered capital: HK\$ 15.33 million; business scope: energy and electric power. The shares held by the Energy Group have not been pledged and frozen.

5. Particulars about the top ten shareholders of circulating share (Ended Dec. 31, 2003)

Unit: share

Shareholders' name	Holding shares at the period-end (share)	Type of shares (A-share, B-share, H-share and other)
DEUTSCHE BANK AG LONDON	2,939,319	B-share
WESTERN SECURITIES CO., LTD.	2,928,856	A-share
SKANDIA GLOBAL FUNDS PLC	2,555,371	B-share
FENG HE VALUE SECURITIES INVESTMENT FUNDS	2,403,076	A-share
NATIONAL COMBINATION OF 101 SOCIAL INSURANCE FUNDS	2,183,498	A-share
GF SECURITIES CO., LTD.	2,074,695	A-share
BANK OF COMMUNICATIONS – HAIFUTONG CHOICENESS SECURITIES INVESTMENT FUNDS	2,072,306	A-share
SHANGHAI (HK) WANGUO SECURITIES	1,759,988	B-share
VALUE PARTNERS INTELLIGENT FUNDS – CHINESE MAINLAND FOCUS FUND	1,691,842	B-share
BOHAI SECURITIES CO., LTD.	1,654,568	A-share

Note: By the end of the report period, the Company is not aware of their associated relationships among the top ten shareholders of circulating share.

IV. Particulars about Directors, Supervisors, Senior Executives & Employees

(I) Directors, supervisors and senior executives in the report period

1. Basic information

Names	Sex	Titles	Age	Office Term	Shares Held in the report period (share)
Liu Deyu	Male	Chairman of the Board	57	Jun. 2003-Jun. 2006	0
Wang Jianbin	Male	Vice Chairman of the Board	40	Jun. 2003-Jun. 2006	0
Cui Jichun	Male	Vice Chairman of the Board	47	Jun. 2003-Jun. 2006	0
Zhang Renyi	Male	Director, GM	43	Jun. 2003-Jun. 2006	0
Yu Chunling	Female	Director	38	Jun. 2003-Jun. 2006	0
Li Li	Male	Director	60	Jun. 2003-Jun. 2006	0
Zhao Xiao	Male	Director	58	Jun. 2003-Jun. 2006	0
Zhong Chengli	Male	Director	56	Jun. 2003-Jun. 2006	0
Sun Yulin	Male	Director	52	Jun. 2003-Jun. 2006	0
Liu Aiqun	Male	Independent Director	49	Jun. 2003-Jun. 2006	0
Huang Sujian	Male	Independent Director	48	Jun. 2003-Jun. 2006	0
Liu Zhanjun	Male	Independent Director	45	Jun. 2003-Jun. 2006	0
Zhou Chengxin	Male	Independent Director	48	Jun. 2003-Jun. 2006	0

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Zhu Tianfa	Male	Chairman of the Supervisory Committee	54	Jun. 2003-Jun. 2006	0
Ji Ming	Male	Supervisor	47	Jun. 2003-Jun. 2006	0
He Yingyi	Male	Supervisor	47	Jun. 2003-Jun. 2006	0
Li Yongsheng	Male	Supervisor	31	Jun. 2003-Jun. 2006	0
Zhou Qun	Male	Supervisor	39	Jun. 2003-Jun. 2006	0
Wang Rendong	Male	Employee Supervisor	42	Jun. 2003-Jun. 2006	0
Xu Shichun	Male	Employee Supervisor	52	Jun. 2003-Jun. 2006	0
Fu Bo	Male	Deputy GM, Secretary of the Board	41	Jun. 2003-Jun. 2006	0
Zhu Wei	Male	Deputy GM	46	Aug. 2003-Jun. 2006	0
Lin Qing	Female	Deputy GM	39	Oct. 2003-Jun. 2006	0
Lu Xiaoping	Male	CFO	41	Aug. 2003-Jun. 2006	0
Sun Shoulin	Male	Chief Engineer	57	Aug. 2003-Jun. 2006	0

Notes:

(1) The above directors, supervisors and senior executives did not hold the Company's shares.

(2) Office taking in Shareholding Companies

Names	Shareholding Companies	Titles	Office Term
Liu Deyu	Shenzhen Energy Group Co., Ltd.	Deputy GM	Since Nov. 1997
Wang Jianbin	Shenzhen Guangju Energy Co., Ltd.	Chairman of the Board	Since Feb.1999
Cui Jichun	Shenzhen State Power Science and Technology Development Co., Ltd.	Chairman of the Board, GM	Since Jul. 2003
Yu Chunling	Shenzhen Energy Group Co., Ltd.	Director of Plan & Development Dept.	Since Apr. 2003
Li Li	Tengda Property Co., Ltd.	Chairman of the Board	Since 1992
Zhao Xiao	Shenzhen Energy Group Co., Ltd.	Chief Engineer	Since Nov. 2001
Zhong Chengli	Shenzhen Guangju Electronic Investment Co., Ltd.	Chairman of the Board	Since Sep. 2000
Sun Yulin	Shenzhen State Power Science and Technology Development Co., Ltd.	Deputy GM	Since Dec. 1999
Zhu Tianfa	Shenzhen Energy Group Co., Ltd.	Chief Accountant	Since Nov. 2001
Ji Ming	Shenzhen Guangju Electronic Investment Co., Ltd.	GM	Since Sep.2000
Zhou Qun	Shenzhen Energy Group Co., Ltd.	Assistant GM and concurrently Director of Office	Since Mar. 2003
He Yingyi	Shenzhen State Power Science and Technology Development Co., Ltd.	Manager of Market Dept.	Since Apr. 2000
Li Yongsheng	Tengda Property Co., Ltd.	Manager	Since 1994

2. Annual remuneration

(1) In the report year, the annual salary received by senior executive is composed the wages (the position wage, floating wage and subsidy) and the year-end rewards. The wages were decided by the Board of Directors and paid on monthly basis based on the post function; the year-end rewards were calculated based on the annual checking targets and reward plan prepared by the Board of Directors at the year beginning, and distributed based on the fulfillment of the targets and personal checking cases.

In the report period, the Company paid the relevant expenses such as traffic, accommodation, investigation and research, investigation and meeting occurred due to work to directors and supervisors according to the relevant provisions concerning the special funds of the Board of Directors approved and established by Shareholders' General Meeting.

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(2) In the report year, the Company had totally 25 directors, supervisors and senior executives. Of them, 8 persons received their annual salary from the Company with amounting of RMB 5.40 million in total, with one enjoying an annual salary from RMB 950,000 to 1,000,000, three enjoying annual salary from RMB 850,000 to RMB 900,000 respectively, one enjoying an annual salary from RMB 700,000 to RMB 750,000, two enjoying annual salary from RMB 400,000 to RMB 450,000 respectively, one enjoying an annual salary of RMB 150,000. The total remuneration of the top three directors enjoying highest salaries was RMB 1,150,000 and the total remuneration of the top three senior executives enjoying the highest salaries was RMB 2,750,000. There were 13 persons, namely Liu Deyu, Wang Jianbin, Cui Jichun, Yu Chunling, Li Li, Zhong Chengli, Zhao Xiao, Sun Yulin, Zhu Tianfa, Ji Ming, He Yingyi, Zhou Qun and Li Yongsheng, all received remuneration and allowances from each appointed company.

Independent directors received the allowance (tax excluded) of independent director from the Company amounting to RMB 100,000 per person annually, and the Company paid the relevant expenses such as traffic, accommodation, investigation and research, investigation and meeting occurred due to work.

3. In the report period, name of directors, supervisors and senior executives leaving his/her posts or engaging and the reasons

(1) As approved by the 1st Extraordinary Shareholders' General Meeting 2003 of the Company, the Company agreed to dismiss Ms. Lao Derong and Mr. Jian Jiyao from the post of director of the 3rd Board of Directors due to work reason; Mr. Liu Deyu and Mr. Zhao Xiao were elected as Directors of the 3rd Board of Directors respectively.

(2) As approved by the 6th Shareholders' General Meeting 2003 of the Company held on Jun. 17. 2003, the Company's 4th Board of Directors comprised 13 persons, namely Liu Deyu, Wang Jianbin, Cui Jichun, Yu Chunling, Li Li, Zhong Chengli, Zhang Renyi, Zhao Xiao, Sun Yulin, Liu Aique, Huang Sujian, Liu Zhanjun and Zhou Chengxin; of them, Liu Aique, Huang Sujian, Liu Zhanjun and Zhou Chengxin were independent directors of the Company. The Company 4th Supervisory Committee comprised Zhu Tianfa, Ji Ming, Zhou Qun, He Yingyi, Li Yongsheng, Wang Rendong and Xu Shichun; of them, Wang Rendong and Xu Shichun were employee supervisors elected at Employees' Representative Meeting of the Company held on June 10, 2003.

(3) As examined by the 1st meeting of the 4th Board of Directors of the Company, Mr. Liu Deyu took the post of Chairman of the Board of the Company, Mr. Wang Jianbin and Mr. Cui Jichun took the post of Vice Chairman of the Board of the Company respectively. Mr. Zhang Renyi was engaged as General Manager of the Company, and Mr. Fu Bo was engaged as Secretary of the 4th Board of Directors. As elected by the 1st meeting of the 4th Supervisory Committee, Mr. Zhu Tianfa took Chairman of the Supervisory Committee of the Company.

(4) As examined by the 3rd meeting of the 4th Board of Directors, Mr. Guo Zhidong and Mr. Fu Bo were engaged as Deputy General Manager of the Company respectively, Mr. Sun Shoulin was engaged as Chief Engineer of the Company, Mr. Zhu Wei was additionally engaged as Deputy General Manager of the Company, and Mr. Lu Xiaoping was engaged as CFO of the Company. The office term of the above personnel is three years. Mr. Zhang Renyi, General Manager of the Company, and the above personnel formed themselves into the 4th Management Team of the Company.

(5) As examined by the 5th meeting of the 4th Board of Directors, the Company agreed that Mr. Guo Zhidong resigned from the post of Deputy General Manager of the Company due to work demand, at the same time, the Company engaged Ms. Lin Qing to take the post of Deputy General Manager.

(II) Employees

At the end of the report period, the Company had totally 360 staff members, up 19.60% over the previors year. Of them, 120 were personnel engaged in equipment operation, 88 were personnel

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engaged in equipment overhauling, 18 were material supply personnel, 17 were financial personnel and 38 were administrative and managerial personnel, with 107 holding college degree, 68 holding bachelor degree and 14 holding masters degree.

As the Company has implemented Shenzhen social insurance system, the Company did not have to pay any expenses to the retired staff.

V. Administrative Structure

(I) Company Administration

In the report period, the Company is still accepting the registered investigation of CSRC Shenzhen Inspection Bureau. During the inspection period, directors, supervisors, and senior executives study industriously the Rules of Administration of Listed Companies; the Guideline on the Articles of the Association of Listed companies; the Opinions on standardization of the Shareholder's General Meeting of Listed Companies and other formal documents. In accordance with the requirements of the Company Law and the Securities Law as well as the regulations of China Securities Regulatory Commission, directors, supervisors, and senior executives check, correct, and introspect themselves sharply. At present, there exists no difference about the actual administration of the Company and the above documents. To perfect the administrative structure in a further step, the Company shall establish specialized committees of investment decision-making, salaries and assessment, nomination, etc. according to the Rules for Administration of Listed Companies before Dec.31, 2004.

(II) Performance of Independent Directors

In the report period, at the 6th Extraordinary Shareholders' Meeting 2003, the Company engaged four independent directors so that the number of independent directors has complied with the requirements of China Securities Regulatory Commission. The newly engaged independent directors actively took the training of independent directors; studied the relevant regulations of the Company Law and the Articles of Association; possessed a good understanding of the duties and standards of independent directors; actively attended Board meetings and carefully reviewed various proposals; participated in material decision making activities by using their professional knowledge and working experience, expressed their independent opinions on the Company's related transactions in compliance with the relevant provisions; seriously implemented their duties and brought the role of independent directors into full play.

(III) The Company is separated from the First Principal Shareholder in terms of Personnel, Assets, Finance, Organization and Business; the Company is independent and complete in business, and operates on its own.

1. Business

The business of the Company is totally independent from that of the First Principal shareholder. Although the First Principal Shareholder and its subsidiaries operate in the same or similar business, the Company is totally separated in the management and operation of business.

2. Personnel:

The Company is absolutely independent from the First Principal Shareholder. The Executives, Chief Financial Officer and the Secretary of the Board don't take any position in the first largest shareholder's company.

3. Assets

The assets of the Company are independent and complete with clear ownership. In the report period, the first largest shareholder neither occupies nor dominates the assets of the Company, nor interferes the asset management of the Company.

4. Organization

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The Board of Directors, the Supervisory Committee and other intra-company departments operate independently. There exists no subordinate relations between the Company/its various functional departments and the first largest shareholder /its functional departments; the first largest shareholder /its functional departments neither gives any orders or plans about the operation, nor interferes the independence of the Company/its various functional departments in any form.

5. Finance:

According to the relevant requirements of laws and rules, the Company establishes sound financial management system and accounting management system, and accounts independently. The First Principal Shareholder isn't involved in the financial and accounting activities of the Company.

(IV) Assessment and Encouragement Mechanism for Senior Executives

In the report period, the Company still adopted the assessment and encouragement mechanism for senior executives based on the operation performances. The 2003-assessment is still in progress. On May 10, 2002, approved by the Shareholders' General Meeting 2001, the Company established the Equity Based Encouragement Management Measures aiming at establishing an effective binding and encouragement mechanism for senior executives. At present, the Equity Based Encouragement Management Measures is unable to implement due to some reason. From now on, pursuant to the principles of law and regulations, the Company will continue exploring actively and implement scientific, formal, and effective long-term encouragement mechanism for executives and key talents.

VI. Shareholders' General Meetings

In the report period, the Company held once 2002 shareholders' general meeting and seven 2003 extraordinary shareholders' meetings. The meetings were summarized as follows:

(I) 2002 Shareholders' General Meeting:

The Company published the announcement on holding Shareholders' General Meeting 2002 on the designated newspapers dated Apr. 22, 2003. This meeting was held at Crystal Meeting Room of Minghua International Meeting Center, Shekou, Shenzhen on May 23, 2003. Six shareholders and shareholders' representatives attended the meeting, holding/representing 374,643,930 shares, taking 68.37% of the Company's total voting shares, including 243,252,179 A-shares and 131,391,751 B-shares, which was in compliance with the relevant regulations of Company Law and the Articles of Association of the Company. As authorized by Chairman of the Board Mr. Liu Deyu, the Vice Chairman of the Board Mr. Wang Jianbin presided over the meeting. The meeting examined and approved the proposals by voting:

1. Work Report 2002 of the Board of Directors;
2. Work Report 2002 of the Supervisory Committee;
3. Financial Settlement Report 2002;
4. Proposal of Profit Distribution 2002;

The proposal of Profit Distribution 2002: distribute cash dividend at the rate of RMB 4.20 (tax included) for every 10 shares to the whole shareholders (the total amount of the share capital is 547,965,998 shares). The remains shall be carried down to next year.

The report year, the Public Capital Reserve shall not be converted into Share Capital.

5. Proposal on the Loan Size and the Company to Authorize the Board of Directors to Decide External Guarantees within the Limitation in 2003;
6. Proposal on Paying the Remuneration to the Company's Domestic Auditor, Guangzhou Yangcheng Certified Public Accountants in 2002;
7. Proposal on Paying the Remuneration to the Company's International Auditor,

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PricewaterhouseCoopers Certified Public Accountants in 2002;

8. Proposal on Engaging the Domestic Auditors for the Year 2003;

9. Proposal on Engaging the International Auditors for the Year 2003;

10. Proposal on the Conversion of Unlisted Foreign Shares into Domestically Listed Foreign Shares held by Tengda Property Co., Ltd.;

11. Proposal on Revising the Articles of Association of the Company.

The aforesaid resolutions were published on the designated newspapers dated May 24, 2003.

(II) The 1st Extraordinary Shareholders' General Meeting 2003

The public notice on holding the 1st Extraordinary Shareholders' General Meeting 2003 was published on the designated newspapers dated Dec. 7, 2002. The meeting was held on Jan. 7, 2003 at the meeting room of Evergreen Resort, Nanshan District, Shenzhen. 6 shareholders and shareholders' representatives attended the meeting, holding/representing 374,556,930 shares, taking 68.35% of the Company's total voting shares, including 243,255,179 A shares and 131,301,751 B shares, which was in compliance with the relevant regulations of Company Law and the Articles of Association of the Company. Recommended by the whole directors, Vice Chairman of the Board Mr. Wang Jianbin presided over the meeting. The meeting examined and approved the Proposal on Change in Directors by voting.

The relevant resolutions were published on the designated newspapers dated Jan. 8, 2003.

(III) The 2nd Extraordinary Shareholders' General Meeting 2003

The public notice on holding the 2nd Extraordinary Shareholders' General Meeting 2003 was published on the designated newspapers dated Jan. 9, 2003. The meeting was held at the Mingrong Room on 2/F of Minghua International Meeting Center, Shekou, Shenzhen on Feb. 18, 2003. 5 shareholders and shareholders' representatives attended the meeting, holding/representing 374,553,930 shares, taking 68.35% of the Company's total voting shares, including 243,252,179 A shares and 131,301,751 B shares, which was in compliance with the relevant regulations of Company Law and the Articles of Association of the Company. Chairman of the Board Mr. Liu Deyu presided over the meeting. The meeting examined and approved the proposals by voting.

1. Proposal on Technical Renovation Project of "Substituting the Big for the Small" Invested and Constructed by Shenzhen Xindianli Industrial Co., Ltd.;

2. Proposal on Contracting Technical Renovation Engineering Construction of "Substituting the Big for the Small" of Shenzhen Xindianli Industrial Co., Ltd.;

3. Proposal on Examining Assets Trusteeship & Operation Contract of Gas-Steam Combined Circulating Residual Heat Generating Set.

The relevant resolutions were published on the designated newspapers dated Feb. 19, 2003.

(V) The 3rd Extraordinary Shareholders' General Meeting 2003

The public notice on holding the 3rd Extraordinary Shareholders' General Meeting 2003 was published on the designated newspapers dated Feb. 21, 2003. The meeting was held at the meeting room of Evergreen Resort, Shenzhen on Mar. 25, 2003. 5 shareholders and shareholders' representatives attended the meeting, holding/representing 374,553,930 shares, taking 68.35% of the Company's total voting shares, including 243,252,179 A shares and 131,301,751 B shares, which was in compliance with the relevant regulations of Company Law and the Articles of Association of the Company. Chairman of the Board Mr. Liu Deyu presided at the meeting. The meeting examined and approved the Proposal on Accepting the Transfer of 49% Equity of Shenzhen Xindianli Industrial Co., Ltd. by voting.

The relevant resolutions were published on the designated newspapers dated Mar. 26, 2003.

(VI) The 4th Extraordinary Shareholders' General Meeting 2003

The public notice on holding the 4th Extraordinary Shareholders' General Meeting 2003 was

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published on the designated newspapers dated Mar. 18, 2003. The meeting was held at the meeting room of Evergreen Resort, Shenzhen on Apr. 17, 2003. 5 shareholders and shareholders' representatives attended the meeting, holding/representing 374,553,930 shares, taking 68.35% of the Company's total voting shares, including 243,252,179 A shares and 131,301,751 B shares, which was in compliance with the relevant regulations of Company Law and the Articles of Association of the Company. Chairman of the Board Mr. Liu Deyu presided over the meeting. The meeting examined and approved the Proposal on Disposing the Undistributed Profit of Shenzhen Xindianli Industrial Co., Ltd by voting.

The relevant resolutions were published on the designated newspapers dated Apr. 18, 2003.

(VI) The 5th Extraordinary Shareholders' General Meeting 2003

The public notice on holding the 5th Extraordinary Shareholders' General Meeting 2003 was published on the designated newspapers dated Apr. 28, 2003. The meeting was held at the meeting room of Evergreen Resort, Shenzhen on May 30, 2003. 6 shareholders and shareholders' representatives attended the meeting, holding/representing 374,750,891 shares, taking 68.39% of the Company's total voting shares, including 243,252,179 A shares and 131,498,712 B shares, which was in compliance with the regulations of Company Law and the Articles of Association of the Company. Authorized by Chairman of the Board Mr. Liu Deyu, Director Mr. Cui Jichun presided over the meeting. The meeting examined and approved by voting:

1. Proposal on Engaging the Law Adviser for the Company in the year 2003;
2. Report on Gas Turbine Combined Circulation Project of "Substituting the Big for the Small" Invested by Shenzhen Xindianli Industrial Co., Ltd..

The aforesaid resolutions were published on the designated newspapers dated May 31, 2003.

(VII) The 6th Extraordinary Shareholders' General Meeting 2003

The public notice on holding the 6th Extraordinary Shareholders' General Meeting was published on the designated newspapers dated May 14, 2003. The meeting was held at the Mingfeng meeting room of Minghua International Meeting Center, Shenzhen on Jun. 17, 2003. 6 shareholders and shareholders' representatives attended the meeting, holding/representing 374,765,852 shares, taking 68.39% of the Company's total voting shares, including 243,252,179 A shares and 131,513,673 B shares, which was in compliance with the relevant regulations of Company Law and the Articles of Association of the Company. Chairman of the Board Mr. Liu Deyu presided over the meeting. The meeting examined and approved by voting:

1. Proposal on Renewal of the Board of Directors;
2. Proposal on Renewal of the Supervisory Committee;
3. Proposal on the Special Audit Entrusted by Shenzhen Energy Group Co., Ltd..

The relevant resolutions were published on the designated newspapers dated Jun. 18, 2003.

(VIII) The 7th Extraordinary Shareholders' General Meeting 2003

The public notice on holding the 7th Extraordinary Shareholders' General Meeting 2003 was published on the designated newspapers dated Oct. 9, 2003. The meeting was held at the Mingfeng meeting room of Minghua International Meeting Center, Shenzhen on Nov. 10, 2003. 16 shareholders and shareholders' representatives attended the meeting, holding/representing 386,058,205 shares, taking 70.45% of the Company's total voting shares, including 254,509,132 A shares and 131,549,073 B shares, which was in compliance with the relevant regulations of Company Law and the Articles of Association of the Company. Chairman of the Board Mr. Liu Deyu presided over the meeting. The meeting examined and approved by voting:

1. Proposal on Investing to Construct the Project of Zhongshan Nanlang Gas Turbine Power Station;
2. Proposal on Investing to Set up Shenzhen Nandian (Zhongshan) Power Co., Ltd.;
3. Proposal on the Related Transactions between the Company and Shenzhen Xiefuli Oil Supply Co., Ltd.;

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4. Proposal on Revising the Articles of Association of the Company.

The relevant resolutions were published on the designated newspapers dated Nov. 11, 2003.

VII. Report of the Board of Directors

(I) Discussion and analysis of the overall operation status in the report period

In the report period, the rapid development of the economy in Shenzhen also drove the city's electricity load and consumption to increase dramatically. The city's consumption amount and the highest load of electricity reached 30,771 million KWH and 5.8 million KW respectively, an increase of 20.83% and 24.73% over the previous year respectively; the network electricity of Shenzhen's fuel power plant reached 9,135 million KWH, with an increase of 30.79% over the same period in the previous year. The electricity demand was in bloom, while in Shenzhen even in Guangdong province, the power supply construction lagged and the power network was very weak, resulting in the very tense power supply in Shenzhen in 2003. The objective market environment created favorable opportunity for the operation and development of the Company's main operations.

2003 was the year for the Company to consolidate basic business, develop outwards and create SHENNANDIAN brand. The Company grasped tightly the favorable tendency of power demand's increase in a rapid and sustainable way and acquired good achievements in production and operation of main operations and external investment. In this year the Company actually completed electricity generation amounting to 3,145,251,500 KWH, an increase of 470,902,800 KWH and 17.61% than the corresponding period of last year, an excess of 20.97% than the generation task of 2,600,000,000 KWH prescribed by the Board of Directors in the early period of the year and created the best record since the Company was established. The Company realized income from main operations amounting to RMB 1,863,937,200, an increase of 14.85% than last year, and for the reason of the dramatic rise in fuel price and drop in the electricity price, the profit from main operations was RMB 499,239,900, a decrease of 6.65% than last year; acquired allowance RMB 72,905,700 and realized net profit amounting to RMB 475.9950 million, an increase of 30.18% than last year.

While finishing the indexes of power generation and profit, the technical renovation project of "substituting the big for the small" for the combustion engine invested and constructed by the New Power Company was put into production at the end of September, making the Company's total installed capacity reach 180,000 KW, and the total installed capacity reach to 880,000KW, put across the general contract project of "substituting the big for the small" for the combustion engine of Shenzhen Baochang Power Plant, indicated the start of the Company's business of accepting general contract projects of external combustion engine stations and technical consulting service; Successfully exploited the investment and operation in Zhongshan power market, strengthened the development of main operations and expanded the operation scale, realized the Company's strategic object of cross-regional development

(II) Operations of the Company

1. Main operations scope and its operation

The company's main operations is power generation, belonging to the energy fundamental industry. In the report period, the Company's total installed capacity was increased from 700,000KW to 880,000KW, accounting for 22.18% of the total installed capacity of Shenzhen City and 38.55% of the total installed capacity of Shenzhen peak-regulating power plants respectively (according to the statistics of Shenzhen Economic Trade Bureau). The Company's network electricity accounting for 10.20% and 34.37% of Shenzhen's whole power supply and that of Shenzhen peak-regulating power plants respectively. It continued to take the position of being the country's largest gas turbine power generation enterprise and Shenzhen's key peak-regulating power generation enterprise.

In the report period, under the advantageous situation that Shenzhen's economy was maintained at stable growth and the electric power market continued to turn better, the Company actively

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tried to get more power generation to the outside and fully exploit the power generation potential internally, emphasize the production management, strengthen the safety production and economic operation, strictly control the production cost, and continuously improve the power generation efficiency, enabling the company's electric main operations to make excellent achievement. In the whole year, it completed the power generation of 3145.2515 million KWH, an increase of 17.61% over the same period in the previous year, the income from main operations was RMB 1863.9372 million, the cost of main operations was RMB1363.4351 million, and the gross profit margin was 26.75%.

2. Operation and performance of main shareholding companies and equity participation enterprises

(Unit: RMB'0000)

Companies	Proportion of Shares Held	Business Scope	Registered Capital	Assets Scale	Operating Income	Net Profit
Xiefu Company	50%	Purchase and sales of diesel oil, heavy oil, lubricating oil, etc.	5,330	22,733.32	43,947.50	1,685.15
New Power Company	100%	Technical development of residual heat utilization, power generation using residual heat	5,750	81,339.23	33,975.18	9,742.89
SHENNANDIAN (Zhongshan) Company	80%	Projects of combustion engine power generation, residual heat power generation, power and heat supply(exclude heat supply pipes network)	39,680	22,920.90		

3. Main suppliers and customers

The key business of the Company is power generation, and the main raw materials required for power generation are fuel oil and spare parts required for the equipment maintenance. For the purchase of the main raw materials, the Company uses the method of international open bidding, and it has established the strategic supplier system through many years of material purchase. In 2003, the total purchase value from top five supplies accounted for 89% of the total purchase value in the year. The Company sells 100% of its electric power generated to Shenzhen Power Supply Co.

(III) Investment

1. Investment of raised funds

In the report period, the Company did not have any newly raised fund and the proceeds raised in previous offer has been used up in 2001.

2. Non-raised fund investment of the Company and shareholding companies

(1) On Aug. 8, 2003, the Company signed Joint Venture Agreement on the Technical Renovation Project of "Substituting the Big for the Small" for the Combustion Engine in Zhongshan (hereafter referred to as Joint Venture Agreement) with Xingdesheng Company and Power Development Company. According to the Joint Venture Agreement, the three parties jointly established sino-foreign venture, namely SHENNANDIAN (Zhongshan) Company with the registered capital amounting to RMB 396.8 million, the Company take 55% of its equity, Xingdesheng Company and Power Development Company take 25% and 20% of its equity respectively. The planned investment amount to RMB1200 million for the construction and operation of Zhongshan Technical Renovation Project of "Substituting the Big for the Small" for the Combustion Engine(hereafter referred to as Zhongshan Technical Renovation Project), that is, investing to construct two gas-steam combined circulation power generation sets whose installed capacity reaching to 280,000 KW, and to reach the scale of the gas turbine peak-regulating power plant whose general installed capacity is 360,000 KW. In the report period, the early period work such as project establishment, feasibility research of project, instruments order, purchase of land,

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joint venture register, etc. has been finished, and the project is in the phase of construction. It is supposed that the combustion engine single circulation sets(2*123,400 KW) will be put into production to generate power in the power consuming peak period, and the combustion engine combined circulation residual heat sets (2*60,000 KW)will be set up and put into production in succession (for details, see the relevant notice published on the appointed newspapers and periodicals on Aug. 12, 2003 and Oct. 9, 2003).

(2) Through eight months' construction, the technical renovation project(III) of "Substituting the Big for the Small" for the combustion engine, the gas-steam combined circulation residual heat power generation sets(1*180,000KW) invested by New Power Company with its equity capital has formally combined network for power generation on Sep. 30, 2003. The actual general investment amounts to RMB388.392 million. In the report period, the company completed power generation 277,339,800 KWH and realised sales of power RMB143.79 million. The sets will utilized residual heat to collectively supply steam to 10 textile and printing and dyeing enterprises. The heat supply pipes are being tensely laid. It is supposed to formally supply steam in the first half year of 2004 and then the environment of Nanshan district will be improved significantly.

(IV) Financial position

Unit: RMB'000			
	In 2003(the year)	In 2002(the last year)	Increase/decrease in amount of the year over the last year (%)
Shareholders' equity	1,519,821	1,274,445	19.25
Profits attributable to shareholders	475,995	365,642	30.18
Net increase in cash and cash equivalents	(76,838)	277,108	-127.73

Reasons of increase/decrease:

- 1.The increase of total assets is mainly because of the increase of profits attributable to shareholders and the capital public reserve.
- 2.Profits attributable to shareholders mainly are allowance income, increase of minority shareholders' abandonment of dividends and the decrease of the minority shareholders' equity.
- 3.Net decrease in cash and cash equivalents is mainly because of the rise in international fuel price and drop in power price, resulting into the decrease in the net cash flow.

(V) Influence of changes in production and operation environment and macroscopic policy on Company's operation**1. Rising demand for power**

In 2004, the demand for power in the whole country will keep rising rapidly and the general power supply situation will be more austere than last year. In Guangdong province, the shortage of power supply will be changed from seasonal to all-year, the gap of the power supply in the whole province will exceed 2 million KW. As the district with the most austere power supply in Guangdong, Shenzhen's highest power load is forecasted to reach to 6.8 million KW, net increase of 1 million KW compared to last year. Ended the end of Jan. of 2004, the highest power load of Shenzhen power network has reached to 4.681 million, an increase of 26.82% than the corresponding period of last year.

2. Drop in the price of power

According to the Notice on Adjusting the Network Power Price of the Gas Turbine Power Generation Enterprise of Guangdong Price Bureau, from Jul.1, 2003, the Company's network power price will be adjusted form RMB 0.75/KWH to RMB 0.72/KWH, and thus decrease the income from main operations amounting to RMB 44.175 million.

3. Rise in the price of fuel

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In 2003, due to the persistent high price in the international oil market, the cost of the fuel needed for power generation increased 17% than the corresponding period of the last year, and added to the Company's power production cost.

(VI) The Company's Financial Report has been respectively audited by Guangzhou Yangcheng CPAs Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants, both of which produced unqualified Auditor's Reports.

(VII) Business plan of the new year

1. At the beginning of the year, the Company invested over RMB 60 million to overhaul the main power generating sets and accessorial sets, ensure the completion rate and contribution rate, actively strive for generation amount, faithfully satisfy the requirement of power temper during the summer power consuming peak, try to complete the annual power generation plan amounting to 3400 million KWH and the profit index excessively and ahead of time.

2. Nearly track the price trend of international fuel price, rationally arrange the fuel purchase plan in the whole year, hunt for the new purchase channel of oil variety and spare parts. Elevate the management of planned purchase and stored material, on the premise of guaranteeing production and supply, try hard to cut down purchase cost.

3. Pay more emphasis on the progress of the project construction of the technical renovation project of "substituting the big for the small" for the combustion engine invested by SHENNANDIAN (Zhongshan) Company, try to put the first combustion engine single circulation sets into production for power generation in June of 2004, and the rest sets will all be constructed and put into production in the 4th quarter of 2004. Make the successful exploitation of Zhongshan power market as the breakthrough, grasp the opportunity of the serious power shortage in Zhongshan, actively apply to invest gas-steam combined circulation power generation sets (2*180,000KW) and quicken the pace of the cross-region development of the Company's main operations.

4. Organized to hold the Seminar on Strategy of the Adaptation of the Combustion Engine Sets to the Power Market Development and Nationalization Experience of 9E type Combustion Engine Combined Circulation System, through cooperating with the international suppliers of combustion engine and national supplier of combined circulation suited instruments, actively exploit the method of cooperating with the national research academies and institutions and well known enterprises in this industry, synthesize the resources of all fields of combustion engine and combined circulation suited instruments as design, production and maintenance, try to synthesize the advantages and transfer to actual ability for profits and strengthen the Company's competition status in the industry.

5. Actively explore the method of capital operation and assets operation, actively participate in the overseas promotion activity of B share, expand the influence of the Company on national and international capital market. Make full use of the resources of the listed company and exert its financing advantage, raise money for the Company's development.

6. In the first part of the year, the Company has finished the purchase of 75% of Zhongshan Power Plant to which Power Development Company belonged and Zhongshan Zhongfa Power Co., Ltd. and their power generation assets, wholly took over the company's production, operation and management. The Company invested RMB 50 million to implement the technique innovation project of residual heat utilization, newly added four residual heat power generation (4*3000KW), elevate the contribution of sets and cut down power generation cost.

7. Quicken the establishment of SHENNANDIAN Combustion Engine Engineering and Technique Co., Ltd., actively exploit contracting combustion engine station project, technical service business, roundly exporting the Company's advanced management and technique, elevating the brand of SHENNANDIAN and make it a new profit growth point.

8. According to the construction progress of Shenzhen LNG project, strengthen the communication with Shenzhen government, bring the project of Nanshan Power Plant's change

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to burn natural gas into the whole layout of of Shenzhen LNG project, try to be the first group of users of Shenzhen LNG project and create conditions for the Company's sustained developmetn.

9.Continue to seek effective method of activating the #21, #22, #23 gas wheel power generation assets of Nanshan Power Plant, try to complete the transfer and removal of the three sets. Actively apply to invest and establish a gas-steam combined circulation power generation sets with 180000KW on the original location, and form sets of Combined Supply of Heat and Power with the gas-steam combined circulation power generation sets which has been established by New Power Company, to satisfy the demands for heat supply n the area of Shenzhen Nanyou district.

10.Press on with the drawback procedure of value added tax on national instruments of technique innovation of "substituting the big for the small" and favourable tax procedure on the project of sythetically utilizing resources.

11.In the principle of conforming to the law and regulation, actively explore and implement standardized, scientific and effective long-term incentive mechanism for business managers and key talents.

(VIII) Routine Work of the Board of Directors

1. Meetings

In 2003, the Board of Directors held twelve meetings altogether, and organized to hold Annual Shareholders' General Meeting 2002 and seven Provisional Shareholders' General Meeting with details as follows:

(1) On Jan.7, 2003, the Company held 14th meeting of the 3rd Board of Directors. Apart from vice chairman of director Huang Dechen wasn't present for some reason, the rest directors were all present. The meeting elected Mr. Liu Deyu as the chairman of the 3rd Board of Directors by voting, and examined and approved the Proposal on Generally Contract with New Power Company for construction of the Technique Innovation of "substituting the big for the small" and Proposal on Submitting for Approval the Contract of Mandatory Operation of the Assets of Gas-steam Combined Circulation Residual Heat Power Generation Sets, and the procedure arrangement of the Company's second Provisional Shareholders' General Meeting in 2003.

(2) The 15th meeting of the 3rd Board of Directors was held on Feb.18, 2003. Except the Vice Chairman of the Board of Directors Huang Dechen who was absent due to some reason, an independent director Liu Zhanjun who entrusted another independent director Huang Sujian to be his representative, all the other directors attended the meeting. In order to regulate the Company's operation, fully protect the interests of all the Company's shareholders, the meeting examined and approved Proposal on Accept 49% Equity of New Power Co., Ltd. and the procedure arrangement of the 3rd Provisional Shareholders' General Meeting in 2003.

(3) The 16th meeting of the 3rd Board of Directors was held on Mar. 13, 2003. Except the Vice Chairman of the Board of Directors Huang Dechen who was absent due to some reason, all the other directors attended the meeting. The meeting examined and approved Settlement Proposal on Retained Earnings of New Power Company, Proposal on Generally Contracting with Baochang Power Plant for the Construction of Technique Innovation Project of the "substituting the big for the small" and Proposal on Holding the 4th Provisional Shareholders' General Meeting in 2004.

(4) The 17th meeting of the 3rd Board of Directors was held on Apr.18, 2003. Except the Vice Chairman of the Board of Directors Huang Dechen who was absent due to some reason, an independent director Huang Sujian who entrusted another independent director Liu Aiqun to be his representative, all the other directors attended the meeting. The meeting examined and approved Business and Work Report of the General Manager 2002, Financial Settlement Report 2002, Report on Providing Reserve for Devaluation of Various Assets and Canceling the Assets through Verification 2002, Profit Distribution and Conversion of Capital Public Reserve into Share Capital 2002, Annual Report and its Summary 2002, Auditor's Report 2002(domestic and oversea version), Proposal on Paying Remuneration of 2002 to the Company's Domestic

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Auditor---Guangzhou Yangcheng CPAs Co., Ltd., Proposal on Paying Remuneration of 2002 to the Company's International Auditor---PricewaterhouseCoopers Certified Public Accountants, Work Report of the Board of Directors 2002, Planned Report of the Company's Production, Operation and Management 2003, Proposal on Credit Scale and Authorization in Limitation of External Guarantees 2003, Proposal on Engaging the Company's Domestic and International Auditors in the Year 2003, Proposal on Holding Annual Shareholders' General Meeting 2002, and Special Resolution on Transferring the Unlisted Foreign Share of Tengda Property Co., Ltd. into Domestically Listed Foreign Shares.

(5) The 18th meeting of the 3rd Board of Directors was held on Apr. 25, 2003. Except the Vice Chairman of the Board of Directors Huang Dechen who was absent due to some reason, a director Li Li who entrusted Vice Chairman of the Board Wang Jianbin to be his representative, all the other directors attended the meeting. The meeting examined and approved Report on the Production, Operation and Management Work of the 1st Quarter of 2003, the 1st Quarterly Financial Settlement Report 2003, the 1st Quarterly Report 2003, Proposal on Engaging the Company's Law Consultant in the Year 2003, Report on New Power Company's Investing and Establishing Technical Renovation Project of "substituting the big for the small" the Gas-steam Combined Circulation Engineering, Auditing Report on the Proceeds Raised Last Time, and procedure arrangement of the Company's the 5th Provisional Shareholders' General Meeting 2003.

(6) The 19th meeting of the 3rd Board of Directors was held on May 13, 2003. Except the Vice Chairman of the Board of Directors Huang Dechen who was absent due to some reason, all the other directors attended the meeting. The examined and approved Proposal on Changing Office Term of the Board of Directors, Proposal on Shenzhen Energy Group Co., Ltd.'s Consigning Special Auditing and Proposal on Holding the 6th Provisional Shareholders' General Meeting 2003.

(7) The 1st meeting of the 4th Board of Directors was held on Jun. 17, 2003 which elected Mr. Liu Deyu as the Chairman of the Board of Directors, Mr. Wang Jianbin and Cui Jichun as the Vice Chairman of the Board of Directors. At the same time Mr. Zhang Renyi was engaged as the general manager of the Company, Mr. Fu Bo as the secretary of the 4th Board of Directors.

(8) The 2nd meeting of the 4th Board of Directors was held on Aug.6, 2003, which examined and approved Report on Purchasing Zhongshan Power Development Company's Subsidiary Fuel Power Plant and Report on Jointly Constructing Technical Renovation Project of "Substituting the big for the small" for the Combustion Engine with Xingdesheng Co., Ltd. and Zhongshan Power Development Company.

(9) The 3rd meeting of the 4th Board of Directors was held on Aug.17, 2003. Except the Vice Chairman of the Board of Directors Wang Jianbin, Cui Jicun and Independent Director Liu Aiqun who entrusted Director Zhong Chengli and Sun Yunlin, Independent Director Huang Sujian to be their representative respectively, all the other directors attended the meeting. The meeting examined and approved Report on the Company's Production, Operation and Management on the First Half Year of 2003, Proposal on Interim Profit Settlement 2003, Interim Auditors' Report of Guangzhou Yangcheng CPAs Co., Ltd. 2003, Interim Report 2003 (both Oversea and Domestic Versions). The meeting at the same time engaged other members of the Company's 4th Management, engaged Mr. Guo Zhidong, Mr. Fu Bo as the Deputy General Manager, Mr. Sun Shoulin as the Chief Engineer, additionally engaged Mr. Zhu Wei as Deputy General Manager, Mr. Lu Xiaoping as Chief Financial Officer. Their office terms are all three years.

(10) The 4th meeting of the 4th Board of Directors was held on Sept. 29, 2003. Except the Independent Director Huang Sujian and Zhou Chengxin who entrusted Independent Director Liu Aiqun to be their representative, all the other directors attended the meeting. The meeting examined and approved Proposal on Investing and Constructing Zhongshan Nanlang Combustion Engine Power Station, Proposal on Investing and establishing SHENNANDIAN (Zhongshan) Power Co., Ltd., Proposal on Report on Adjusting the Company's Organization Structure and Management Mode, Proposal on Operating Related Transactions between the Company and

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Shenzhen Xiefu Oil Supply Co., Ltd., Proposal on Amending the Articles of Association of the Company, Proposal on Holding the 7th Provisional Shareholders' General Meeting 2003, and examined Report on Progress of Buying Fuel Power Plant, the subsidiary of Zhongshan Power Development Co., Ltd..

(11) The 5th meeting of the 4th Board of Directors was held on Oct.17, 2003. Part of directors are absent for some reason, among which Director Zhao Xiao did not entrust other directors to be representative, Directors Yu Chunling, Sun Yulin respectively entrusted Chairman of the Board Liu Deyu, Vice Chairman Cui Jichun to be representatives, and Independent Director Huang Sujian and Liu Zhanjun entrusted Independent Director Liu Aiqun to be their representative. The meeting examined and approved Report on the Company's Production, Operation and Management in the 3rd Quarter of 2003, the 3rd Quarterly Profit Settlement Project 2003, the 3rd Quarterly Report 2003 (both Oversea and Domestic Versions). The meeting also approved the resign of Deputy General Manager Guo Zhidong and engaged Ms. Lin Qing as the Company's Deputy General Manager and Ms. Hu Qin as Security Affairs Representative of the 4th Board of Director.

(12) The 6th meeting of the 4th Board of Directors was held on Dec.19, 2003. Except Director Li Li was absent for business reason and did not entrusted other directors to be his representative, all the other directors attended the meeting. The meeting examined and approved the Company's Power Generation Instruments Overhaul Report 2004, Proposal on Self-inspection and Rectification Report on the Company's Normative Operation in 2003 and Proposal on the Contract of Assets Trusteeship of New Power Company's Power Generation Sets. At the same time the meeting discussed Report on Implementing the Smoke Sulfur-off Technique Innovation of 7# Set and the meeting also studied Shenzhen Securities Regulation Office's report on Elevating Level of Administration Regulation, Promote the Development of Listed Companies.

2.Implementation of the Resolutions of the Shareholders' General Meeting by the Board of Directors

According to the relevant resolutions of Shareholders' General Meeting 2002, the Board of Directors organized the implementation of Dividends Distribution Plan 2002: based on the total share capital amounting to 547,965,998 shares ended December 31, 2002, the Company distributed cash dividend at the rate of RMB 4.2 for every 10 shares (after deduction of tax, the net dividend was distributed at RMB 3.36 for every 10 shares) to shareholders of A-shares and RMB 4.2 for every 10 shares to shareholders of B-shares. The date of record was July 7, 2003 and ex-dividend date was July 8, 2003. The exchange rate between HK\$ and RMB for the dividend of B-shares was based on HK\$ 1 = RMB 1.0613. The Company paid cash dividend totaling RMB 230,145,719.16.

(IX) Preplan on Profit Distribution or Converting Capital Public Reserve into Share Capital of the Report Year

Audited by Guangzhou Yangcheng CPAs Co., Ltd. according to the Independent Auditing Standards for Chinese Certified Public Accountants, the net profit realized by the parent company in 2003 was RMB 482,619,712.84. After the statutory public reserve was provided based on 10% of the net profit amounting to RMB 48,261,971.29, and the public welfare fund was provided based on 5% of the net profit amounting to RMB 24,130,985.64 in accordance with the relevant provisions of the Articles of Association, the balance was RMB 410,226,755.91. Plus the undistributed profit carried down from 2002 amounting to RMB 322,506,828.13, subtract the cash dividends distributed last year amounting to RMB 230,145,719.16, the total profit available for distribution to the shareholders in 2003 was RMB 502,587,864.88. After the consolidation, the net profit of the Company in 2003 was RMB 471,110,360.33. After provision of the statutory public reserve amounting to RMB 48,261,971.29 and public welfare fund amounting to RMB 24,130,985.64, and deduction of statutory public reserve and public welfare fund provided by the consolidated subsidiaries in 2003 amounting to RMB 14,614,328.98, the balance was RMB

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384,103,074.42. Plus the undistributed profit carried down from 2002 amounting to RMB 296,799,472.19, subtract the cash dividends distributed last year amounting to RMB 230,145,719.16, the profit available for distribution to the shareholders after consolidation in 2003 was RMB 450,756,827.45.

Audited by PricewaterhouseCoopers Certified Public Accountants, the net profit realized in 2003 based on the calculation according to Hong Kong Accounting Standards was RMB 475,995,000. Less the statutory public reserve provided based on 10% of the net profit amounting to RMB 48,262,000 and public reserve provided based on 5% of the net profit amounting to RMB 24,131,000 according to the regulations of the People's Republic of China, plus the undistributed profit carried down from the previous year amounting to RMB 296,800,000 and less the difference arising from the consolidation of the subsidiaries amounting to RMB 14,614,000 and the conversion into capital public reserve amounting to RMB 4,885,000, subtract the cash dividends distributed last year amounting to RMB 230,146,000, the profit available for distribution to the shareholders in 2003 was RMB 450,757,000.

Based on the above calculation result, the profit available for distribution to the shareholders after the domestic consolidation in 2003 was RMB 450,756,827.45, and the domestic parent company's profit available for distribution to the shareholders was RMB 502,587,864.88; the profit available distribution to the shareholders outside the People's Republic of China was RMB 450,757,000. According to the relevant provisions of the State Ministry of Finance (Financial-Accounting Zi (1995) No. 31 and China Securities Regulatory Commission (CSRC Letter (1994) No. 1), based on the principle of soundness and the lower of the two, the profit available for distribution to shareholders was worked out according to the domestic consolidation in 2003, namely RMB 450,756,827.45.

The preplan on profit distribution in 2003 is: allotting cash to all shareholders (total share capital is 547,965,998 shares) at the rate of RMB 4.68 (tax included) for every 10 shares and the balance is carried forward to the next year.

The Company shall not convert capital reserve into share capital in the year.

The above proposal is subject to Shareholders' General Meeting 2003 for review and approval before implementation.

(X) Special explanations on capital occupied by related parties and external guarantees

1. The following is the special explanations on capital occupied by the first largest shareholder of the Company and its other related parties presented by Guangzhou Yangcheng CPAs Co., Ltd.:

Commissioned by Shenzhen Nanshan Power Station Co., Ltd., according to the requirements in Circular on Implementing Relevant Work on Circular on Standardizing Listed Companies' Capital Current with Related Parties, External Guarantees and Other Several Problems released by CSRC Shenzhen Securities Regulatory Office with SZBFZ [2003] No. 233 document, we have examined the capital occupied by the Company and its related parties. Now the examinations are explained as follows:

Ended Dec. 31, 2003, the capital current between the Company and its related parties (excluding the related parties in the scope of consolidated statements) was arising from the related transactions from normal operating activities between the Company and its related parties (For details, please refer to [2004] YCZ No. 2100 Auditors' Report). Besides, the Company paid the elevator engineering account amounting to RMB 3,222,800 in advance for its related party called Shenzhen Jinbiwan Investment Development Co., Ltd. and this account has been drawn back ended Dec. 31, 2003. Except for the said capital current, we have not found any circumstances mentioned in Circular on Standardizing Listed Companies' Capital Current with Related Parties, External Guarantees and Other Several Problems involved by the Company, including:

(1) Advance wages, welfare, insurance, advertisement and other period expenses for its related parties or bear the cost and other expenditures for each other mutually;

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- (2) Borrow the Company's capital for its related parties with compensation or without compensation;
- (3) Provide entrusted loans for its related parties through bank or non-bank financial institutions;
- (4) Entrust its related parties to conduct investment activities;
- (5) Open trade acceptances without true transaction background for its related parties;
- (6) Refund liabilities for its related parties;

2. Special explanations and independent opinions of the Company's independent directors on external guarantees:

According to Rules on Administration of Listed Companies, Guide Opinion on Establishing Independent Director System in Listed Companies, Circular on Standardizing Listed Companies' Capital Current with Related Parties, External Guarantees and Other Several Problems, the Articles of Association of the Company and other relevant provisions, we have seriously looked through the Company's guarantees in 2003 and have found the Company has ever established mutual-guarantee of loans with Shenzhen Shennan Petroleum (Group) Co., Ltd. (hereinafter referred to as Shennan Petroleum), a shareholder of the controlling shareholder of Shenzhen Guangju Power Investment Co., Ltd. due to the historical reasons after checking Auditors' Report 2003 and our investigation. Since Chairman of the Board of Shennan Petroleum takes the position of Vice Chairman of the Board of the Company concurrently, the said guarantee has formed the actual related relationships. Though the said guarantee was considered and approved by Shareholders' General Meeting of the Company, in order to further standardize the Company's external guarantees, the Company relieved the mutual-guarantee of loans for both parties completely when the guarantee for loans of Shennan Petroleum expired in June 2003. The Company has set up and has continued to improve Provisions on Management of External Guarantees of the Company. Since from June 2003, the Company has not provided guarantee for any companies, any non-legal person companies or individuals without capital relationships. The Company also did not provide guarantee for other related parties where the Company holds less than 50% equity from year 2003. The Company has special procedures for examination and approval to those guarantees in compliance with provisions and has special persons to conduct real-time track for the guarantees.

According to the spirit in Circular on Standardizing Listed Companies' Capital Current with Related Parties, External Guarantees and Other Several Problems, the Company conducted self-inspection to its external guarantees in Sept. 2003, which has further strengthened the control on external guarantees.

Ended Dec. 31, 2003, the Company's external guarantees were under control. We believed the decision-making procedures of external guarantees were legal, reasonable and fair; the Company timely implemented the relevant information disclosure obligations; the external guarantees did not harm the interests of the Company and its shareholders, especially small and medium shareholders.

VIII. Report of the Supervisory Committee

(I) Meetings in the Report year

In the report period, the Supervisory Committee held 12 meetings and attended all board meetings as non-voting delegates. The meetings are summarized as follows:

1. The 15th meeting of the 3rd Supervisory Committee was held on Jan.7, 2003 that examined and approved Proposal on Making General Contract with New Power Company on the Construction of its Technique Innovation Project of "substituting the big for the small", Proposal on Submitting for Examination and Approval the Mandatory Operation Contract of the assets of the Gas-Steam Combined Circulation Residual Heat Power Generation, and the procedure

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arrangement of the 2nd Provisional Shareholders' General Meeting of 2003.

2.The 16th meeting of the 3rd Supervisory Committee was held on Feb.18, 2003. In order to regulate the Company's operation and protect all shareholder's interest of the Company, the meeting examined and approved Proposal on Assigning 49% Equity of Shenzhen New Power Co., Ltd. and the procedure arrangement of the 3rd Provisional Shareholders' General Meeting of 2003.

3.The 17th meeting of the 3rd Supervisory Committee was held on Mar.13, 2003 which examined and approved Disposal Plan on the Undistributed Profit of New Power Company, Proposal on Generally Contracting with Baochang Power Plant on the Construction of Technique Innovation Project of "substituting the big for the small",and Proposal on holding the 4th Provisional Shareholders' General Meeting of 2003.

4.The 18th meeting of the 3rd Supervisory Committee was held on Apr.18, 2003 which examined and approved Business and Work Report of the General Manager 2002, Financial Settlement Report 2002, Report on Providing Reserve for Devaluation of Various Assets and Canceling the Assets through Verification 2002, Profit Distribution and Converting the Capital Public Reserve into Share Capital 2002, Annual Report and the Summary 2002; Auditors' Report 2002 (both Oversea and Domestic Versions); Work Report of the Supervisory Committee 2002; Report on Plan for Production, Operation and Management Work in 2003.

5.The 19th meeting of the 3rd Supervisory Committee was held on Apr. 25, 2003 that examined and approved the 1st Quarterly Production, Business and Management Report 2003, the 1st Quarterly Report 2003, Report on Investing and Constructing the Technique Innovation Project of "substituting the big for the small" Gas-Steam Combined Circulation Residual Heat Engineering of New Power Company, Explanation on the Use Status of the Proceeds Previously Raised and Proposal on Holding the 5th Provisional Shareholders' General Meeting of 2003.

6.The 20th meeting of the 3rd Supervisory Committee was held on May 13, 2003 that examined and approved Proposal on Changing Office of Supervisory Committee, Proposal on Consigning Special Auditing of Shenzhen Energy Group Co., Ltd. and Proposal on holding the 6th Provisional Shareholders' General Meeting of 2003.

7.The 1st meeting of the 4th Supervisory Committee was held on Jun. 17, 2003 that conformably elected Mr. Zhu Tianfa as the Chairman of the Supervisory Committee of the Company, and seven members as Zhu Tianfa, Ji Ming, He Yingyi, Zhou Qun, Li Yongsheng, Wang Rendong and Xu Shichun etc. formed the 4th Supervisory Committee.

8.The 2nd meeting of the 4th Supervisory Committee was held on Aug.6, 2003, which examined and approved Report on Purchasing Zhongshan Power Development Company's Subsidiary Fuel Power Plant and Report on Jointly Constructing Technical Renovation Project of "Substituting the big for the small" for the Combustion Engine with Xingdesheng Co., Ltd. and Zhongshan Power Development Company.

9.The 3rd meeting of the 4th Supervisory Committee was held on Aug.17, 2003. The meeting examined and approved Report on the Company's Production, Operation and Management on the First Half Year of 2003, Proposal on Interim Profit Settlement 2003, Interim Auditors' Report of Guangzhou Yangcheng CPAs Co., Ltd. 2003, Interim Report 2003 (both Oversea and Domestic Versions).

10.The 4th meeting of the 4th Supervisory Committee was held on Sept. 29, 2003. The meeting examined and approved Proposal on Investing and Constructing Zhongshan Nanlang Combustion Engine Power Station, Proposal on Investing and establishing SHENNANDIAN (Zhongshan) Power Co., Ltd., Proposal on Report on Adjusting the Company's Organization Structure and Management Mode, Proposal on Operating Related Transactions between the Company and Shenzhen Xiefu Oil Supply Co., Ltd., Proposal on Amending the Articles of Association of the Company, Proposal on Holding the 7th Provisional Shareholders' General Meeting 2003, and examined Report on Progress of Buying Fuel Power Plant, the subsidiary of Zhongshan Power Development Co., Ltd..

11.The 5th meeting of the 4th Supervisory Committee was held on Oct.17, 2003. The meeting examined and approved Report on the Company's Production, Operation and Management in the

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3rd Quarter of 2003, the 3rd Quarterly Profit Settlement Project 2003, the 3rd Quarterly Report 2003 (both Oversea and Domestic Versions).

12. The 6th meeting of the 4th Supervisory Committee was held on Dec.19, 2003. The meeting listened to the Company's Power Generation Instruments Overhaul Report 2004 and considered and passed Proposal on Self-inspection and Rectification Report on the Company's Normative Operation in 2003 and Proposal on the Contract of Assets Trusteeship of New Power Company's Power Generation Sets. At the same time the meeting discussed Report on Implementing the Smoke Sulfur-off Technique Innovation of 7# Set and the meeting also studied Shenzhen Securities Regulation Office's report on Elevating Level of Administration Regulation, Promote the Development of Listed Companies.

(II) The Supervisory Committee's independent opinions on the following events

1. The Company's operation according to laws

In 2003, the members in the Supervisory Committee attended all meetings of the Board of Directors as nonvoting delegates and supervised on all decisions, material operations and investments submitted to the Board of Directors for research. The Supervisory Committee considered that the Company could develop all productive and operative business according to the State and local laws and regulations and the Articles of Association in 2003, not disobeying any law and regulation, which should be fully affirmed. In the report period, there was still no final conclusion in the registered check from CSRC Shenzhen Inspection Bureau. The Company actively cooperated, seriously conducted self-examination and self-correction and fully checked the problems left in the history and in the aspects of normative operation. It put forward rectification measures and projects and formed rectification report, in which each item should be implemented in rectification within a limited period. The Company committed to stick to operation according to laws and normative operation based on the principle of safeguarding the interests of the Company and its shareholders in the future.

2. Inspecting the Company's finance

In 2003, the Company further enlarged the capital management and cost control. Through rigorous and effective internal management measures, the Company's productive and operative cost was controlled in an effective way, which made the benefits increase and created good returns for the shareholders.

The Supervisory Committee considered that the Company could strictly implement the relevant financial and tax policies of the State, attach importance to the financial management and exert the supervision and control function of finance. It agreed the unqualified auditors' report on the Company's accounting statements' complying with the provisions in Accounting Standards for Business Enterprises and Accounting System for Business Enterprises released by the State and on reflecting the Company's financial position ended Dec. 31, 2003 and its operating results and cash flows for the year then ended in all material aspects presented by Guangzhou Yangcheng CPAs Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants respectively for the Company.

3. Use of the raised proceeds

The actual projects and the committed projects invested with the Company's latest proceeds raised through public offer were accordant.

4. Acquisition and sales of assets

The Company had no acquisition or sales of assets in the report period.

5. Related transactions

The Supervisory Committee considered the principle of fair transaction in the market was taken into account in the Company's related transactions in the report period and their transaction

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prices were confirmed according to the market price of the products in the same type. After considered and passed by the Board of Directors and Shareholders' General Meeting of the Company, the transaction price was fair and reasonable.

IX. Significant Events

(I) In the report year, the Company had no material lawsuits and arbitrations.

(II) In the report period, the Company's acquisition and sales of assets, consolidation and merger

(1) On Mar. 23, 2001, the Company signed equity transfer agreement with MEIYA POWER COMPANY LIMITED and preliminarily confirmed to transfer 10% equity of Tongling SE Power Company Limited to MEIYA POWER COMPANY LIMITED at price of RMB 42.88 million. Ended the report period, since the equity transfer has not been approved by relevant departments, the Company could not finished its transfer procedures. Since the operation of Tongling SE Power Company Limited became better obviously in 2003, the Board of Directors of the Company decided to continuously hold the equity of Tongling SE Power Company Limited.

(2) On Aug. 8, 2003, the Company signed Fundamental Agreement on Equity Transfer, Assets and Liabilities Reorganization of Zhongshan Power Plant and Zhongshan Zhongfa Power Co., Ltd. with Power Development Company. Power Development Company held 100% investor's equity and 100% disposal right of Zhongshan Power Plant and 75% equity in registered capital of Zhongshan Zhongfa Power Co., Ltd.. The Company agreed to join its restructure of state-owned enterprise, import scientific operating management system and advanced productive technology for it and join the investment and construction of technical reform power project of gas turbine "Substituting the big for the small" in Zhongshan. Based on it, the both parties agreed that the Company was assigned 75% investor's equity of Zhongshan Power Plant and 75% equity of Zhongshan Zhongfa Power Co., Ltd. held by Power Development Company by means of debt bearing according to the provisions in the Agreement and assets reorganization would be conducted between Zhongshan Zhongfa Power Co., Ltd. and Zhongshan Jiafa Power Co., Ltd. after the equity transfer. Through the said equity transfer, assets and liabilities reorganization, implementing the technical reform power project of gas turbine "Substituting the big for the small" in Zhongshan would be beneficial to expand the Company's operating scale, extend the market share of electric power and realize the trans-regional development strategy. The detailed projects related to equity transfer and assets and liabilities reorganization were still under further negotiation.

(III) Material related transactions

1. In the report period, the related transactions with accumulative total amount exceeding RMB 30 million or taking over 10% in net profit of the year or taking over 5% in net assets amount in the Company's latest period after being audited were as follows:

Unit: RMB'0000

Parties of related transaction	Transaction content	Pricing rule	Average transaction price	Average market price	Transaction amount	Percentage in transaction amount of the same type	Way of settlement	Influence on the Company's profit
Xiefu Company	Purchase of goods	Market price	RMB 2.926/ton	RMB 3,500/ton	RMB 17.56 million	43%	Opening invoice	1%
Xiefu Company	Lease of oilcans	Market price	RMB 26.19/ton		RMB 30.37 million	97%	Opening invoice	2%

Xiefu Company mainly provides supply service of oil products for the power plants in Shenzhen. Its 10 oilcans are one of oil warehouses with relatively large scale in circumjacent areas of the Company at present, thus it can purchase oil products by batches with purchase cost lowering than market price. At the same time, the vitta lines of Xiefu Company connects to Moon Bay

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Wharf and the Company directly. Having a group of experienced professionals in operation of oil products, by making use of operating advantages in oilcans and the wharf, Xiefu Company can a series of services such as transport, loading and unloading, quantity assurance and etc.. Since the direct index of imported fuel released by Shenzhen Economic and Trade Bureau could not meet the Company's need in oils used for power generation in the whole year, thus the Company chose Xiefu Company as one of suppliers of oil products for the part of fuel exceeding import index, which could effectively reduce the purchase cost of oil products. At the same time, the highly effective operation could ensure the normal and continuous production and operation of the Company's power generation.

2. On Feb. 18, 2003, the Company signed Contract on Equity Transfer with Jinbiwan Company. According to the provisions in this Contract, the Company was assigned 49% equity of New Power Company held by Jinbiwan Company at the price of RMB 56.32 million. On Mar. 25, 2003, the 3rd Provisional Shareholders' General Meeting 2003 of the Company considered and passed the proposal on the assigning the equity. After the transfer, the Company directly held 75% equity of New Power Company and indirectly held 25% equity of New Power Company through its wholly owned subsidiary Xingdesheng Company, which totally amounted to 100% equity (For details, please refer to the relevant notices published in the designated newspapers on Mar. 26, 2003.).

3. There existed current credits and liabilities and guarantees between the related parties and the Company.

(1) Ended Dec. 31, 2003, the Company provided guarantee amounting to RMB 25.50 million for its controlling company called Shenzhen New Power Industrial Co., Ltd. and provided guarantee of credit line amounting to RMB 200 million for its controlling company called SHENNANDIAN (Zhongshan) Company with the actually used RMB 130 million.

(2) Ended Dec. 31, 2003, the Company's account receivable from its related company called Shenzhen Xiefu Oil Supply Co., Ltd. was RMB 9,700.

(3) Ended Dec. 31, 2003, the Company's account payable to its related company called Shenzhen Xiefu Oil Supply Co., Ltd. was RMB 30,705,300.

(4) Ended Dec. 31, 2003, the Company's account payable to its related company called Shenzhen Moon Bay Renhe Industrial Co., Ltd. was RMB 170,100.

(5) Ended Dec. 31, 2003, the Company's account payable to its related company called Shenzhen Energy Group Co., Ltd. was RMB 553,300.

The said events impacted no material influence on the Company.

(IV) Material contracts and their implementations

1. Trusteeship, contract and lease events

(1) After considered by the 14th Meeting of 3rd Board of Directors and approved by the 2nd Provisional Shareholders' General Meeting 2003 of the Company, the Company took the general contract of engineering construction of "Substituting the big for the small" technical reform project, namely gas-steam combined circulating residual heat power set (Installed capacity was 1*123,400KW+1*60,000KW), from New Power Company. The said project was put into production smoothly on Sept. 30, 2003. In the report period, the Company received general contract expense amounting to RMB 11,507,400 and was responsible for the operation and management of the said power set committed by New Power Company.

Since one simple circulating power set of gas turbine (1*123,400KW) and two gas-steam combined circulating residual heat power set (2*60,000KW) held by New Power Company at present all located in the factory zone of the Company and had close relationships with the Company, in order to make reasonable use of the resources and fully exert the Company's advantages in production, operation and management of electric power, talents and technologies, based on the principles of equality, mutual benefits, openness, fairness and justness, both parties

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signed Contract on Assets Trusteeship and Operation of Power Sets of Shenzhen New Power Industrial Co., Ltd. again on Dec. 23, 2003, in which New Power Company entrusted the equipment operation, maintenance, production, operation and management of the said power sets invested and constructed by New Power Company to the Company and the Company accepted the entrustment of New Power Company voluntarily. According to the provisions in the Contract, the Company would receive assets trusteeship service fee at RMB 0.025/KWH according to the energy generating of the trusted sets; at the same time, New Power Company would burden the Company's refrigerant circulating water expense, fuel cost, manufacturing expense and management expense etc. according to the proportion of energy generating of trusted sets in the Company's total energy generating. The said contract started to be implemented on Jan. 1, 2004 and the original one was stopped.

(2) The Company contracted the technical reform engineering project of gas turbine "Substituting the big for the small" of Shenzhen Baochang Power Co., Ltd. in 2002 and provided technical consultation and technical service for this company. After intense construction, installation and debugging for over one year, the said project was put into operation on July 16, 2003. In the report period, the Company received total engineering contracting fee amounting to RMB 9,450,300, which indicated that the Company had the capability to enter into general contract field of gas turbine power station by making use of self-owned technology and management and expanded the new business of exporting technology and management.

2. In the report period, the Company did not entrust others to conduct management on cash assets.

(V) Implementation of commitments

1. The Company has released profit distribution policy in Annual Report 2002 and has implemented the said commitment. For details in profit distribution preplan 2003, please see "Preplan on profit distribution and converting capital reserve into share capital in the year".

2. In the report period, the Company's shareholders holding over 5% shares and related parties did not owe payments of the Company and there was also no other commitment.

(VI) The Company's engagement of certified public accounts and payment of remuneration in the report period

From listing in year 1994 to year 2003, the Company always engaged Guangzhou Yangcheng CPAs Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants as the Company's domestic and foreign auditor respectively (The relevant resolutions were published in the designated newspapers on May 24, 2003).

The Company decided the auditing remuneration of accountants subject to the approval of the Board of Directors and the Shareholders' General Meeting, according to Provisional Regulation on Charge Standards of Certified Public Accounts released by Shenzhen Bureau of Finance with SCZ (1995) No. 38 document and the Company's total annual assets, and referring to the payment of auditing expense of other listed companies in the equivalent scale. The Company and its subsidiaries engaged certified public accounts with details as follows:

Auditing items	In 2003		In 2002	
	Auditors	Auditing expenses	Auditors	Auditing expenses
Group consolidated financial report and interim and annual financial report of domestic subsidiaries under Chinese Accounting Standards	Guangzhou Yangcheng CPAs Co., Ltd.	RMB 750,000	Guangzhou Yangcheng CPAs Co., Ltd.	RMB 540,000
Group consolidated financial report under International Accounting Standards	PricewaterhouseCoopers Certified Public Accountants	HKD 520,000	PricewaterhouseCoopers Certified Public Accountants	HKD 500,000
Annual financial report of foreign subsidiaries	Ernst & Young Certified Public Accountants	S\$2806.30	Ernst & Young Certified Public Accountants	S\$4,880

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Note: All the said auditing expenses do not include business trip expenses during the auditing.

(VII) From Nov. 4, 2002, the Company accepted the registered investigation from CSRC Shenzhen Inspection Bureau, but there was still no final conclusion up to the present. The Company promised to disclose the results of relevant investigations to the investors timely.

(VIII) New Power Company was confirmed as advanced foreign technology enterprise by Shenzhen Economic and Trade Bureau with SJMF [2002] No. 68 document and continued to enjoy a series of preferential policies such as tax exemption etc. after smoothly passing the examination in 2003.

(IX) According to SGSF [2002] No. 415 document, from Jan. 1, 2003, the Company was stopped in implementing the provision that the foreign power plants inside and outside the special economic zone are collected value-added tax by a half.

(X) According to SJMF [2003] No. 91 document, the project of gas turbine combined circulating residual heat power sets invested and constructed by the Company was resource comprehensive use project enjoying tax preferential policy in Shenzhen. The application procedures of tax preference related to enjoying income tax exemption were still under transacting.

(XI) According to Circular on Adjusting Networked Price of Power of Shenzhen Gas Turbine Power Plant released by Guangdong Price Bureau with YJ [2003] No. 189 document, the Company's networked price of power was adjusted from RMB 0.75/KWH to RMB 0.72/KWH, which started to be implemented from July 1, 2003.

(XII) According to the resolutions of Shareholders' General Meeting of Jinbiwan Company on Mar. 11, 2003 and Disposal Proposal on Retained Earnings of Shenzhen New Power Industrial Co., Ltd. considered and passed by the 4th Provisional Shareholders' General Meeting of the Company on April 17, 2003 and Resolution on Profit Distribution in 2001 and 2002 passed by Shareholders' General Meeting of New Power Company on June 13, Jinbiwan Company, a shareholder of New Power Company, would not enjoy the profit distribution in New Power Company according to the percentage of equity of New Power Company held by it, but enjoyed its investment earnings of New Power Company in year 2001 and the first half year of 2002 according to the return on equity of the Company in year 2001 and year 2002. Jinbiwan Company agreed not to enjoy the retained earnings of New Power Company in the second half year of 2002. The distributed profit exceeding the calculation according to the said method amounting to RMB 44,852,754.07 was enjoyed by the Company and Xingdesheng Company respectively according to their corresponding percentage of equity in New Power Company. The Company amortized the net amount of Jinbiwan Company amounting to RMB 42,951,100, after abandoning dividends amounting to RMB 44,852,700 and deducting payable corporate income tax amounting to RMB 1,901,600, into earnings of all years on average in a 15-year period as "Negative goodwill". The current earnings transferred in amounted to RMB 2,863,400 in the report period according to Hong Kong GAAP.

(XIII) On May 23, 2003, the Company held Annual Shareholders' General Meeting and considered and passed Proposal on Transferring Unlisted Foreign Shares of Tengda Property Co., Ltd. to Listed Foreign Shares, in which agreed the unlisted foreign shares amounting to 47,553,343 shares held by Tengda Property Co., Ltd., the shareholder of foreign sponsor of the Company, were transferred into domestically listed foreign shares (B shares). The said proposal has been approved by Ministry of Commerce of the State and should be still approved by China Securities Regulatory Commission.

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X. Financial Report

The financial report of the Company has been audited by PricewaterhouseCoopers Certified Public Accounts, who has presented unqualified auditors' report.

(I) Auditors' Report (Appendix)

(II) Accounting Statements (Appendix)

(III) Notes to Accounting Statements (Appendix)

XI. Documents Available for Reference

(I) Accounting statements carried with the signatures and seals of the legal representative, financial principal and accountants.

(II) Original of auditors' report carried with the seal of certified public accountants and signatures and seals of CPA

(III) All original of the Company's documents and original manuscript of notices ever disclosed in Securities Times, China Securities and Ta Kung Pao in the report period.

(IV) The Articles of Association

(V) Annual Report promulgated in oversea newspapers

(VI) Consulting address: Secretariat of the Board of Directors of the Company

**Board of Directors of
Shenzhen Nanshan Power Station Co., Ltd.**
Mar. 17, 2004

SHENZHEN NANSHAN POWER STATION CO., LTD.

**INTERNATIONAL AUDITORS' REPORT TO THE SHAREHOLDERS OF
SHENZHEN NANSHAN POWER STATION CO., LTD.**

(incorporated as a joint stock limited company in the People's Republic of China)

We have audited the accounts on pages 2 to 24 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and international auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

SHENZHEN NANSHAN POWER STATION CO., LTD.

Opinion

In our opinion the accounts give a true and fair view of the state of the Group's affairs as at 31 December 2003 and of its profit and cash flows for the year then ended.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 14 March 2004

SHENZHEN NANSHAN POWER STATION CO., LTD.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003**

	Note	2003 RMB'000	2002 RMB'000
Turnover	3	1,863,937	1,622,904
Other revenues	3	94,556	50,883
		1,958,493	1,673,787
Fuel costs		(1,023,375)	(753,020)
Staff costs	4	(85,859)	(143,031)
Depreciation of fixed assets		(137,831)	(119,152)
Impairment of fixed assets		-	(11,320)
Amortisation of intangible assets		(2,055)	(8,190)
Operating lease expenses - equipment		(30,375)	(26,198)
Repairs and maintenance expenses		(59,291)	(34,642)
Other operating expenses	5	(62,190)	(52,873)
Operating profit		557,517	525,361
Finance costs	6	(12,367)	(14,347)
Share of profit of associated companies		1,437	-
Profit before taxation		546,587	511,014
Taxation	7	(70,592)	(51,671)
Profit after taxation		475,995	459,343
Minority interests		-	(93,701)
Profit attributable to shareholders		475,995	365,642
Dividends	8	256,448	230,146

SHENZHEN NANSHAN POWER STATION CO., LTD.

Earnings per share - basic

9

RMB0.87RMB0.67

SHENZHEN NANSHAN POWER STATION CO., LTD.

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2003**

	Note	2003 RMB'000	2002 RMB'000
Intangible assets	11	(61,045)	14,292
Fixed assets	12	1,314,880	1,038,912
Construction in progress	13	231,976	54,864
Interest in associated companies	14	3,622	-
Investment securities	15	71,885	74,285
Current assets			
Inventories	16	150,316	86,909
Trade receivables		216,190	148,368
Amount due from a minority shareholder	19	23,530	-
Amount due from a related company		-	3,223
Other receivables, deposits and prepayments		58,042	37,212
Bank balances and cash	17	494,178	570,956
		942,256	846,668
Current liabilities			
Trade payables		5,476	31,975
Amounts due to associated companies	18	3,238	2,367
Amount due to a related company	20	13,865	1,148
Other payables and accrued charges		140,348	197,883
Taxation payable		48,657	40,834
Bank loans, unsecured	21	622,329	335,000
		833,913	609,207
Net current assets		108,343	237,461
Total assets less current liabilities		1,669,661	1,419,814
Financed by:			
Share capital	22	547,966	547,966
Reserves	23	521,098	429,679
Retained earnings	24		
Proposed final dividend		256,448	230,146
Others		194,309	66,654
Shareholders' funds		1,519,821	1,274,445
Minority interests		19,840	145,369
Bank loans, unsecured	21	130,000	-
		1,669,661	1,419,814

Liu Deyu
Director

Cui Jichun
Director

SHENZHEN NANSHAN POWER STATION CO., LTD.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003**

	Note	2003 RMB'000	2002 RMB'000
Total equity as at 1 January		1,274,445	1,079,372
Declaration of dividend	24	(230,146)	(169,869)
Profit for the year		475,995	365,642
Exchange differences	23	60	1,432
Utilisation of public welfare fund	23	(533)	(2,132)
Total equity as at 31 December		<u>1,519,821</u>	<u>1,274,445</u>

SHENZHEN NANSHAN POWER STATION CO., LTD.

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003**

	Note	2003 RMB'000	2002 RMB'000
Operating activities			
Cash received from customers		2,137,328	1,882,878
Cash paid to suppliers		(1,269,047)	(845,594)
Cash paid to and on behalf of employees		(104,481)	(103,256)
Other cash received		15,750	11,200
Other cash payments		(327,847)	(150,342)
Net cash inflow generated from operations	25(a)	451,703	794,886
Interest paid		(17,934)	(16,379)
PRC income tax paid		(64,456)	(31,795)
Net cash inflow from operating activities		369,313	746,712
Investing activities			
Purchase of fixed assets and payments for construction in progress		(582,762)	(360,124)
Purchase of investment securities		-	(2,400)
Purchase of interest in a subsidiary from minority shareholder		(56,320)	-
Dividend received from investment securities		867	-
Interest received		5,033	4,178
Loan to a minority shareholder		(20,000)	-
Net cash outflow from investing activities		(653,182)	(358,346)
Net cash (outflow)/inflow before financing		(283,869)	388,366
Financing activities	25(b)		
New loans raised		752,329	335,000
Repayment of loans borrowed		(335,000)	(295,000)
Decrease in pledged bank deposits		-	18,611
Capital contribution from minority shareholder of a subsidiary		19,840	-
Dividends paid		(230,138)	(169,869)
Net cash inflow/(outflow) from financing		207,031	(111,258)
(Decrease)/increase in cash and cash equivalents		(76,838)	277,108
Cash and cash equivalents at 1 January		570,956	292,416
Effect of foreign exchange rate changes		60	1,432
Cash and cash equivalents at 31 December	17	494,178	570,956

NOTES TO THE ACCOUNTS

1 General

Shenzhen Nanshan Power Station Co., Ltd. (the “Company”) is a joint stock limited company incorporated in the People’s Republic of China (the “PRC”). The Company’s A shares and B shares are listed on the Shenzhen Stock Exchange. The Company and its subsidiaries (collectively the “Group”) are principally engaged in the generation of electricity in the PRC.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

These accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Society of Accountants (the “HKSA”) (collectively “HK GAAP”). This basis of accounting differs in certain respects from that used in the preparation of the PRC statutory accounts. Appropriate restatements have been made to these accounts to conform with HK GAAP. Differences arising from the restatement are not incorporated in the accounting records of the Group.

These accounts have been prepared under the historical cost convention.

In the current year, the Group adopted SSAP 35 “Government Grants and Disclosure of Government Assistance” and SSAP 12 “Income Taxes” issued by the HKSA which are effective for accounting periods commencing on or after 1 July 2002 and 1 January 2003, respectively. There is no material impact of adopting these SSAPs on the Group.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

2 Principal accounting policies (continued)

(b) Consolidation (continued)

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(d) Investment securities

Investment securities are stated at cost less any provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the consolidated profit and loss account. This impairment loss is written back to the consolidated profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(e) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Land use rights are depreciated on a straight-line basis over the lease period or the remaining licensed operating period of the company concerned, whichever is shorter.

SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

2 Principal accounting policies (continued)

(e) Fixed assets and depreciation (continued)

Generators powered by fuel and applied directly for the production of electricity are included in plant and machinery and depreciated over their estimated useful lives, taking into account the estimated residual value, based on actual production hours over the budgeted total production hours of the assets concerned. Other plant and machinery are depreciated over their estimated useful lives of 10 to 20 years, taking into account the estimated residual value, on a straight-line basis.

Other tangible fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis, taking into account the estimated residual value. The principal annual rates are as follows:

Buildings	4.5%	
Motor vehicles, furniture, fixtures and other equipment		9% - 18%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the consolidated profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated profit and loss account.

(f) Construction in progress

Construction in progress represents fixed assets under construction and is stated at cost, which includes the costs of acquisition and construction as well as borrowing costs arising from borrowings used to finance the construction during the construction period.

(g) Intangible assets

(i) Negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of the subsidiary acquired at the date of acquisition over the cost of acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the consolidated profit and loss account immediately.

NOTES TO THE ACCOUNTS

2 Principal accounting policies (continued)

(g) Intangible assets (continued)

(ii) *Other intangible assets*

Other intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses and are amortised using the straight-line method over their estimated useful lives.

(h) Impairment of long-lived assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets, construction in progress and intangible assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated profit and loss account.

(i) Inventories

Inventories comprise fuel oil, spare parts and consumables and are stated at the lower of cost and net realisable value after provision for obsolete items, and are expensed to fuel costs or repairs and maintenance when used, or capitalised to fixed assets when installed, as appropriate.

Cost includes invoiced value plus procurement costs and is assigned to individual items on the weighted average basis.

(j) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

2 Principal accounting policies (continued)

(k) Deferred taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the consolidated profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(m) Accounts and other receivables

Provision is made against accounts and other receivables to the extent they are considered to be doubtful. Accounts and other receivables in the consolidated balance sheet are stated net of such provision.

(n) Cash and cash equivalents

Cash and cash equivalents are carried in the consolidated balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdraft.

(o) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company, if any, are charged to the consolidated profit and loss account on a straight-line basis over the lease periods.

SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

2 Principal accounting policies (continued)

(p) Revenue recognition

Revenue from the sale of electricity is recognised when the electricity is transmitted to the supply centre of Guangdong Guang-dian Power Grid Group Co., Ltd. Shenzhen Power Supply Branch (“SPSB”) which was formerly known as Shenzhen Municipal Electricity Bureau (“SMEB”).

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

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

Consultancy fee income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(q) Employee benefits

Retirement benefits

The Group has to make defined contributions to the staff retirement scheme managed by the local government in accordance with the relevant rules and regulations. Contributions to the retirement benefit scheme are charged to the consolidated profit and loss account as and when incurred.

Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the consolidated profit and loss account in the year in which they are incurred.

SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

2 Principal accounting policies (continued)

(s) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

3 Turnover and revenues

The Group is principally engaged in the generation of electricity. Revenues recognised during the year were as follows:

	2003 RMB'000	2002 RMB'000
Turnover		
Sales of electricity (note (a))	1,863,937	1,622,904
Other revenues		
Government grants - tax refunds (note (b))	72,906	46,705
Consultancy fee income	15,750	-
Interest income	5,033	4,178
Dividend income	867	-
	94,556	50,883
Total revenues	1,958,493	1,673,787

(a) Turnover represents sales of electricity to SPSB at the prices as approved by the Shenzhen Commodity Bureau, less value-added tax.

- (b) Pursuant to various circulars issued by the Shenzhen Municipal Administration of State Taxation and local government authorities, the Group received a refund on value-added tax paid. The refund is recognised upon assessment and approval by the relevant authorities. Pursuant to the circular "Shengguoshuifa [2002] No.415" issued by the Shenzhen Municipal Administration of State Taxation on 19 December 2002, value-added tax paid by the Group after 1 January 2003 would not be refunded.
- (c) No segmental information is presented in the accounts as the turnover and results of the Group are principally derived from power generation in the PRC.

NOTES TO THE ACCOUNTS

4 Staff costs

	2003 RMB'000	2002 RMB'000
Wages and salaries	30,701	34,503
Bonuses	77,621	99,758
Retirement scheme contributions (note (a))	3,829	6,932
Allowances and others	1,660	1,838
Bonuses refunded (note (b))	(27,952)	-
	<u>85,859</u>	<u>143,031</u>

- (a) The Group participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The Group is required to make monthly contributions to the retirement scheme at a rate of 14% (2002: 14%), based on the eligible employees' basic salaries. The local government authorities are responsible for the pension liabilities to retired employees. Forfeited contributions made by the Group on behalf of employees who leave the scheme prior to full vesting of the contributions may not be used to reduce the existing level of contributions.
- (b) In previous years the Group made bonus payments to staff based on the current and expected future growth in sales which was estimated to be brought to the Group as a result of the cost incurred by staff to increase the production capacity of certain existing plant and machinery of the Group. According to the resolutions of Shenzhen Discipline Investigation Committee passed during the year, directors and management staff of the Group are required to return all or part of the bonuses received.

5 Other operating expenses

Other operating expenses include the following:

	2003 RMB'000	2002 RMB'000
Write-down of inventories to net realisable value	-	6,844
Provision for/(recovery of) doubtful debts	157	(145)
Net exchange loss	706	679
Loss on disposal of fixed assets	<u>198</u>	<u>46</u>

SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

6 Finance costs

	2003 RMB'000	2002 RMB'000
Interest on bank loans	17,934	16,379
Less: amount capitalised in construction in progress	(5,567)	(2,032)
	<u>12,367</u>	<u>14,347</u>

The average capitalisation rate applied to funds borrowed generally and used for the development of construction in progress was 3.5% (2002: 5.0%) per annum.

7 Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 RMB'000	2002 RMB'000
PRC income tax:		
The Group	70,377	51,671
The associated companies	215	-
	<u>70,592</u>	<u>51,671</u>

- (a) The companies comprising the Group and the associated companies are subject to income tax rate in their respective jurisdictions. The PRC enterprise income tax rate applicable to those companies incorporated in the PRC is 15% which is the preferential income tax rate for enterprises established in the Shenzhen Special Economic Zone.
- (b) A subsidiary, Shenzhen New Power Industrial Co., Ltd. ("SNP"), is a sino-foreign joint venture engaged in power generation business and is entitled to a two years tax exemption followed by three years of 50% tax reduction, commencing from the first profit making year net of losses carried forward. As SNP only commenced operation in August 2001, the company elected 2002 as its first profit making year. No income tax was provided for 2003 and 2002.
- (c) No provision for deferred taxation has been made in the accounts as the effect of all temporary differences is not material to the Group.

SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

7 Taxation (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2003 RMB'000	2002 RMB'000
Profit before taxation	546,587	511,014
Calculated at a taxation rate of 15% (2002: 15%)	81,988	76,652
Profit earned in the tax holiday period	(14,431)	(28,667)
Income not subject to taxation	(732)	-
Expenses not deductible for taxation purposes	3,717	3,550
Unrecognised tax losses	50	136
Taxation charge	70,592	51,671

8 Dividends

	2003 RMB'000	2002 RMB'000
Final, proposed	256,448	230,146

At a meeting held on 14 March 2004 the directors declared a final dividend of RMB0.468 (2002: RMB0.420) per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2004.

9 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB475,995,000 (2002: RMB365,642,000) and the number of shares in issue of 547,966,000 (2002: 547,966,000).

No diluted earnings per share amount is presented as the Company has no dilutive potential shares.

NOTES TO THE ACCOUNTS

10 Acquisition of interest in a subsidiary from a minority shareholder

SNP was previously held as to 26%, 25% and 49% by the Company, Hong Kong Syndisome Co., Limited (“Syndisome”) (a wholly owned subsidiary of the Company) and Shenzhen Jinbiwan Investment Development Company Limited (“Jinbiwan”) (a company owned by certain staff of the Company). On 18 February 2003, the Company entered into a share transfer agreement with Jinbiwan to acquire the entire 49% equity interest in SNP held by Jinbiwan for a consideration of RMB56,320,000. The consideration was calculated by reference to the amount of capital injected by Jinbiwan in SNP plus an agreed return up to 31 December 2002. Following the transfer, SNP became a wholly owned subsidiary of the Company.

On 12 March 2003, Jinbiwan further agreed to waive a portion of the dividend receivable from SNP and the waiver was finalised and approved in the shareholders’ meeting of SNP held on 13 June 2003. The amount waived by Jinbiwan of RMB44,853,000, attributable to the Company and Syndisome, was calculated by reference to the agreed rates of return on net assets of the Company and SNP for 2001 and 2002. Income tax totalling RMB1,902,000 has been provided in the books of the Company and Syndisome in respect of the waiver.

The excess of the fair value of the Group’s share of the net assets of SNP at the date of acquisition over the cost of acquisition, as adjusted by the amount of dividend waived (net of tax) by Jinbiwan, was taken to negative goodwill (note 11).

11 Intangible assets

	Negative goodwill (note (a)) RMB’000	Amounts paid for the construction of electricity output facilities (note (b)) RMB’000	Total RMB’000
Year ended 31 December 2003			
Opening net book amount	-	14,292	14,292
Acquisition of additional interest in a subsidiary (note 10)	(73,282)	-	(73,282)
Amortisation charge for the year	4,885	(6,940)	(2,055)
Closing net book amount	<u>(68,397)</u>	<u>7,352</u>	<u>(61,045)</u>
At 31 December 2003			
Cost	(73,282)	81,900	8,618
Accumulated amortisation	4,885	(74,548)	(69,663)
Net book amount	<u>(68,397)</u>	<u>7,352</u>	<u>(61,045)</u>
At 31 December 2002			
Cost	-	81,900	81,900
Accumulated amortisation	-	(67,608)	(67,608)
Net book amount	<u>-</u>	<u>14,292</u>	<u>14,292</u>

SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

11 Intangible assets (continued)

- (a) The negative goodwill is amortised over the remaining weighted average useful life of non-monetary assets of the subsidiary acquired of 15 years.
- (b) The amounts were paid to SPSB for the construction of relevant facilities in respect of increase in electricity output by the Group and are amortised over the useful life of the facilities of 10 years.

12 Fixed assets

	Land use rights and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles, furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost				
At 1 January 2003	128,299	1,759,124	48,184	1,935,607
Additions	539	17,218	4,102	21,859
Transfer from construction in progress (note 13)	777	385,824	5,537	392,138
Disposals	-	(19)	(1,775)	(1,794)
At 31 December 2003	129,615	2,162,147	56,048	2,347,810
Accumulated depreciation and impairment				
At 1 January 2003	51,742	807,496	37,457	896,695
Depreciation charge	6,888	128,126	2,817	137,831
Disposals	-	(17)	(1,579)	(1,596)
At 31 December 2003	58,630	935,605	38,695	1,032,930
Net book value				
At 31 December 2003	70,985	1,226,542	17,353	1,314,880
At 31 December 2002	76,557	951,628	10,727	1,038,912

- (a) The land occupied by the Group is located in the PRC and the land use rights are for periods of 20 to 30 years.

13 Construction in progress

	2003 RMB'000	2002 RMB'000
At 1 January	54,864	81,314
Finance cost capitalised (note 6)	5,567	2,032
Other additions	563,683	353,392
Transfer to fixed assets (note 12)	(392,138)	(381,874)

SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

At 31 December

<u>231,976</u>	<u>54,864</u>
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SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

14 Interest in associated companies

	2003 RMB'000	2002 RMB'000
Share of net assets	3,622	-

As at 31 December 2003, the Company has equity interest in the following unlisted companies which are companies incorporated with limited liability and operated in the PRC:

Name	Registered/ paid up capital	Attributable equity interest		Principal activities
		Held directly	Held indirectly	
Shenzhen Server Petrochemical Supplying Co., Ltd. ("Shenzhen Server")	RMB55,300,000	50%	-	Trading of fuel oil
Shenzhen Yueliangwan Renhe Industrial Co., Ltd. ("Yueliangwan Renhe") (note (a))	RMB12,000,000	-	20%	Management of fuel pipes and trading

- (a) During the year, the Group's investment in Yueliangwan Renhe is reclassified from investment securities to interest in associated companies following the acquisition by the Company of additional interest in SNP (note 10) which owns 20% interest in Yueliangwan Renhe and increase of influence in the management of Yueliangwan Renhe.

15 Investment securities

	2003 RMB'000	2002 RMB'000
Unlisted investments, at cost	71,885	74,285

As at 31 December 2003, the Company held direct interests in the following unlisted companies which are companies incorporated with limited liability and operated in the PRC:

Name	Registered/ paid up capital	Attributable equity interest	Principal activities
Anhui Province Tongling Shenneng Power Co., Ltd.	RMB392,634,000	10%	Power generation
Shenzhen Energy Environmental Engineering Co., Ltd.	RMB290,000,000	10%	Power generation (yet to commence operation)

NOTES TO THE ACCOUNTS

16 Inventories

	2003 RMB'000	2002 RMB'000
Fuel oil	35,771	32,289
Spare parts and consumables	121,389	61,464
	157,160	93,753
Less: provision	(6,844)	(6,844)
	150,316	86,909

Total cost of inventories recognised as fuel costs, repairs and maintenance and other expenses of the year was RMB1,082,329,000 (2002: RMB775,193,000).

At 31 December 2003, inventories with cost amounted to RMB6,844,000 (2002: RMB6,844,000) were carried at zero realisable value.

17 Bank balances and cash

For the purpose of the consolidated cash flow statement, the cash and cash equivalents comprise:

	2003 RMB'000	2002 RMB'000
Bank balances	493,791	570,764
Cash	387	192
	494,178	570,956

18 Amounts due to associated companies

The amounts represent fees payable for rental of oil tanks and use of pipes for transportation of fuel oil. The amounts are unsecured, interest free and repayable in accordance with the terms of the rental contracts and transportation agreements.

19 Amount due from a minority shareholder

The amount due from a minority shareholder is unsecured and included a loan of RMB20,000,000 which is charged at prevailing bank borrowing rate and for a period of six months. The remaining balance is interest free and repayable on demand.

20 Amount due to a related company

The amount due to a related company represents the dividend payable to Jinbiwan, a company which is owned by certain staff of the Company and also a former minority shareholder of a subsidiary. The amount is unsecured, interest free and repayable on demand.

SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

21 Bank loans, unsecured

	2003 RMB'000	2002 RMB'000
Wholly repayable within one year	622,329	335,000
Wholly repayable within two to five years	130,000	-
	<u>752,329</u>	<u>335,000</u>

22 Share capital

	2003 RMB'000	2002 RMB'000
Registered, issued and fully paid		
85,538,864 shares held by the State	85,539	85,539
289,015,071 shares held by legal persons	289,015	289,015
64,846,135 PRC listed Renminbi shares ("A shares")	64,846	64,846
108,565,928 PRC listed foreign shares ("B shares")	108,566	108,566
Total	<u>547,966</u>	<u>547,966</u>

Pursuant to the Company's articles of association, all shares are of nominal value of RMB1 each and registered ordinary shares with equal rights.

23 Reserves

	Capital reserve (note (a)) RMB'000	Statutory surplus reserve fund (note (b)) RMB'000	Discretionary surplus reserve fund (note (b)) RMB'000	Public welfare fund (note (c)) RMB'000	Exchange difference reserve RMB'000	Total RMB'000
At 1 January 2002	215,488	93,373	8,344	44,600	(860)	360,945
Appropriation from retained earnings	-	46,289	-	23,145	-	69,434
Transfer of reserve funds	-	-	14,405	(14,405)	-	-
Exchange differences	-	-	-	-	1,432	1,432
Utilisation of public welfare fund	-	-	-	(2,132)	-	(2,132)
At 31 December 2002	<u>215,488</u>	<u>139,662</u>	<u>22,749</u>	<u>51,208</u>	<u>572</u>	<u>429,679</u>
At 1 January 2003	215,488	139,662	22,749	51,208	572	429,679
Appropriation from retained earnings	-	58,005	-	29,002	-	87,007
Exchange differences	-	-	-	-	60	60
Transfer to capital reserve	4,885	-	-	-	-	4,885
Utilisation of public welfare fund	-	-	-	(533)	-	(533)
At 31 December 2003	<u>220,373</u>	<u>197,667</u>	<u>22,749</u>	<u>79,677</u>	<u>632</u>	<u>521,098</u>

SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

23 Reserves (continued)

- (a) Capital reserve mainly comprises (i) the difference between the value of the assets and the nominal value of shares issued as a result of the conversion of the Company from a joint venture company to a joint stock limited company; (ii) share premiums from the issuance of shares; and (iii) amounts transferred from retained earnings for income that is not available for distribution in the PRC statutory accounts.
- (b) According to relevant PRC regulations, the Company and its subsidiaries established in the PRC should allocate 10% of its profit after taxation (per PRC statutory accounts) to the statutory surplus reserve fund until such reserve reaches 50% of the registered capital. The statutory surplus reserve fund may be applied to make up losses, if any, or to capitalise for share issue purposes but the funds after the issue should amount to not less than 25% of the registered capital.

The discretionary surplus reserve fund can be set up by means of appropriation from the profit after taxation (per PRC statutory accounts) or transfer from the public welfare fund. Subject to the approval of shareholders in general meeting, the reserve can be used to make up any losses, to increase share capital or to pay dividends.

- (c) The Company and its subsidiary established in the PRC are also required to appropriate a certain percentage (as determined by the directors) of the profit after taxation (per PRC statutory accounts) to the public welfare fund. The use of the public welfare fund is restricted to capital expenditure for staff collective welfare facilities which are owned by the Company and its subsidiary. The public welfare fund is not available for distribution to the shareholders (except upon liquidation of the company). Once the capital expenditure on staff welfare facilities is made, an equivalent amount is transferred from the public welfare fund to the discretionary surplus reserve fund.

Pursuant to a document issued by the Shenzhen Municipal government dated 23 June 1997, the Company was allowed to utilise the fund to pay a portion of the contributions to the staff retirement scheme. Pursuant to the document Caiqi [2003] No.61 issued by the Finance Bureau dated 9 February 2003, the Company is no longer allowed to utilise the fund to pay any portion of the contributions to the staff retirement scheme from 1 April 2003 onwards.

24 Retained earnings

	2003 RMB'000	2002 RMB'000
At 1 January	296,800	170,461
Profit for the year	475,995	365,642
Transfer to capital reserve	(4,885)	-
Appropriation to funds	(87,007)	(69,434)
Dividends declared	(230,146)	(169,869)
At 31 December	<u>450,757</u>	<u>296,800</u>

SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

24 Retained earnings (continued)

The retained earnings at year end represent:

	Note	2003 RMB'000	2002 RMB'000
A final dividend proposed after year end	8	256,448	230,146
Others		194,309	66,654
		<u>450,757</u>	<u>296,800</u>

- (a) As at 31 December 2003, the retained earnings of the Group included accumulated losses of RMB25,428,000 (2002: RMB26,650,000) attributable to the associated companies.
- (b) Pursuant to relevant PRC regulations, profit available for distribution to shareholders shall be the lower of the accumulated distributable profits determined according to PRC accounting standards and regulations as stated in the PRC statutory accounts and the accumulated distributable profits determined according to HK GAAP.

25 Notes to the consolidated cash flow statement

- (a) Reconciliation of operating profit to net cash inflow from operating activities

	2003 RMB'000	2002 RMB'000
Operating profit	557,517	525,361
Depreciation of fixed assets	137,831	119,152
Impairment of fixed assets	-	11,320
Loss on disposal of fixed assets	198	46
Amortisation of intangible assets	2,055	8,190
Write-down of inventories to net realisable value	-	6,844
Provision for /(recovery of) doubtful debts	157	(145)
Dividend received from investment securities	(867)	-
Interest income	(5,033)	(4,178)
Operating profit before working capital changes	<u>691,858</u>	<u>666,590</u>
Increase in inventories	(63,407)	(24,167)
(Increase)/decrease in amounts due from a related company and a minority shareholder, trade receivables, other receivables, deposits and prepayments	(82,393)	45,843
(Decrease)/increase in amount due to a related company and associated companies, trade payables, other payables and accrued charges	<u>(94,355)</u>	<u>106,620</u>
Net cash inflow generated from operating activities	<u>451,703</u>	<u>794,886</u>

SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

25 Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Bank loans		Pledged bank deposits		Minority interests	
	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	335,000	295,000	-	18,611	145,369	51,668
Capital contribution from minority shareholder	-	-	-	-	19,840	-
Minority interest's share of profit	-	-	-	-	-	93,701
Acquisition of interest in a subsidiary from minority shareholder	-	-	-	-	(145,369)	-
New loans raised	752,329	335,000	-	-	-	-
Repayment of loans borrowed	(335,000)	(295,000)	-	-	-	-
Pledged bank deposits withdrawn	-	-	-	(18,611)	-	-
At 31 December	752,329	335,000	-	-	19,840	145,369

26 Commitments

(a) Capital commitments for fixed assets

At 31 December 2003, the Group had capital commitments for acquisition and construction of fixed assets as follows:

	2003 RMB'000	2002 RMB'000
Contracted but not provided for	194,664	65,549

(b) Commitments under operating leases

At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2003 RMB'000	2002 RMB'000
Not later than one year	38,160	6,840
Later than one year and not later than five years	37,152	-
	75,312	6,840

SHENZHEN NANSHAN POWER STATION CO., LTD.

NOTES TO THE ACCOUNTS

27 Related party transactions

Significant related party transactions which were carried out in the normal course of business during the year, other than those as disclosed elsewhere in these accounts, are as follows:

	2003 RMB'000	2002 RMB'000
The associated companies		
- Shenzhen Server		
Purchase of fuel oil	17,555	32,672
Leasing of fuel oil tankers	30,375	26,198
- Yueliangwan Renhe		
Fuel oil transportation fee paid	3,903	1,148

28 Subsidiaries

As at 31 December 2003, the Company held interests in the following unlisted subsidiaries all of which are companies with limited liability:

Name	Place of incorporation and operation	Registered / paid up capital	Attributable equity interest		Principal activities
			Held directly	Held indirectly	
Shennan Energy (Singapore) Pte Ltd.	Singapore	SGD1,500,000	100%	-	Investment holding
Hong Kong Syndisome Co., Limited	Hong Kong	HKD200,000	-	100%	Investment holding
Shenzhen New Power Industrial Co., Ltd. (note 10)	PRC	RMB57,500,000	75%	25%	Power generation
Shennandian (Zhongshan) Power Co., Ltd.	PRC	RMB99,200,000	55%	25%	Power generation (yet to commence operation)

29 Ultimate holding company

The directors regard the Company has no ultimate holding company.

30 Approval of accounts

The accounts were approved by the board of directors on 14 March 2004.

SHENZHEN NANSHAN POWER STATION CO., LTD.**NOTES TO THE ACCOUNTS****SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2003**

The impact of HK GAAP adjustments on the PRC statutory accounts is as follows:

	Profit after taxation and minority interests for the year ended 31 December 2003 RMB'000	Net assets as at 31 December 2003 RMB'000
As per PRC statutory accounts	471,110	1,588,218
Impact of HK GAAP adjustments		
- Reclassification of negative goodwill arising on the acquisition of interest in a subsidiary from capital reserve account to intangible assets and provision of related amortisation	4,885	(68,397)
As per HK GAAP accounts	475,995	1,519,821