SHENZHEN NANSHAN POWER STATION CO., LTD.
THE THIRD QUARTERLY REPORT 2004

§1. Important Notice

1.1 The Board of Directors of Shenzhen Nanshan Power Station Co., Ltd. (hereinafter referred to as the Company) and its directors individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading.
1.2 No director stated that he (she) could not ensure the correctness, accuracy and completeness of the contents of the Quarterly Report or have objection for this report.
1.3 Wang Jianbin, Vice Chairman of the Board, went on errands due to business and authorized Director Zhong Chengli to attend the meeting and exercise the voting right on his behalf; Independent Director Huang Sujian went on errands due to business and authorized Independent Director Xu Jing’an to attend the meeting and exercise the voting right on his behalf.
1.4 The Quarterly Financial Report has not been audited.
1.5 Chairman of the Board Mr. Liu Deyu, the General Manager Mr. Zhang Renyi, Chief Financial Officer Mr. Lu Xiaoping and Director of Financial Department Mr. Chen Xueshun hereby confirm that the Financial Report enclosed in this Quarterly Report is true and complete.

§2. Company Profile

2.1 Basic information

Short form of stock	Shen Nan Dian A	Shen Nan Dian B
Stock code	000037	200037
	Secretary of the Board	**Securities Affairs Representative**
Name	Fu Bo	Hu Qin
Address	16/F, Hantang Building, OCT, Nan Shan District, Shenzhen	17/F, Hantang Building, OCT, Nan Shan District, Shenzhen
Tel	(86)755-26003698	(86)755-26003683
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Email	fb@nspower.com.cn	huqin@nspwer.com.cn

2.2 Financial information
2.2.1 Major accounting data and financial indexes (Unit: RMB’000)

	At the end of this report period	At the end of last year	Increase/decrease of the end of report period compared with the end of last year (%)
Total assets	3,236,643	2,503,574	29.28

Total shareholders' funds	1,586,669	1,519,821	4.40
Total shareholders' funds per share	2.90	2.77	4.40
	In the report period	Year-begin to the end of report period	Increase/decrease of the report period compared with the same period of last year
Net cash flows arising from operating activities	-	200,130	-
Earnings per share (RMB)	0.26	0.59	23.03
Rate of return of total shareholders' funds	9.06%	21.15%	Up 0.83 per cent

Note: Impact on PRC statutory account arising from adjustment of Hong Kong Accounting Principle:

	Jan.-Sep. 2004 Net profit (RMB'000)
In accordance with PRC Statutory account	317,705
Amortization of nagative goodwill arising from purchasing of equity of affiliated company	3,665
Account in accordance with Hong Kong Accounting Principle	321,370

2.2.2 Income statement

Shenzhen Nanshan Power Station Co., Ltd.

Income Statement

	Nine months ended Sep. 30, 2004	Jul.-Sep. 2004	Nine months ended Sep. 30, 2003	Jul.-Sep. 2003
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	1,723,173	615,194	1,326,984	523,246
Other revenues	8,038	22	92,897	811
Total revenues	1,731,211	615,216	1,419,881	524,057
Fuel costs	-990,720	-330,229	-741,587	-285,925
Staff costs	-91,183	-38,998	-85,711	-27,494
Depreciation of fixed assets	-119,953	-40,506	-99,695	-37,792
Amortisation of intangible assets	-227	-380	-1,185	-106
Operating lease expenses - equipment	-27,872	-6,162	-21,611	-10,331
Repairs and maintenance expenses	-84,179	-4,477	-67,186	-20,971
Other operating expenses	-35,146	-14,342	-36,428	-23,266
Operating profit	381,931	180,122	366,478	118,172
Finance costs	-15,582	-6,130	-7,059	-2,805
Share of profit of associated companies	7,271	2,201		

Profit before taxation	373,620	176,193	359,419	115,367
Taxation	-39,963	-20,059	-25,469	1,486
Profit after taxation	333,657	156,134	333,950	116,853
Minority interests	-12,287	-12,373		
Profit attributable to shareholders	321,370	143,761	333,950	116,853

2.3 Total shareholders as at the end of report period and shares held by the top ten shareholders of circulation share:

Total shareholders at the end of report period	25,165 shareholders	
Particulars about shares held by the top ten shareholders of circulation share		
Name of shareholders (Full name)	Circulation shares held at the period-end (share)	Type (A-share, B-share, H-share and other)
SKANDIA GLOBAL FUNDS PLC	4,863,041	B-share
BTFE-VALUE PARTNERS INTELLIGENT FD-CHINA B SHS FD	3,231,133	B-share
SOUTHERN SECURITIES (HONG KONG) CO., LTD.	3,098,684	B-share
NATIONAL COMBINATION OF 101 SOCIAL INSURANCE FUNDS	2,972,794	A-share
INDUSTRIAL AND COMMERCIAL BANK OF CHINA-GUOLLIAN ANDERSON SMALL WELL-CHOSEN SECURITIES INVESTMENT FUND	2,390,364	A-share
MORGAN STANLEY INT’L (CHINA)-FIRM	2,319,752	B-share
TOYO SECURITIES ASIA LIMITED-A/C CLIENT.	2,250,578	B-share
DEUTSCHE BANK AG LONDON	2,135,376	B-share
NEITENG SECURITIES CO., LTD.	2,052,564	B-share
EVERBRIGHT BANK OF CHINA – JUTIAN FUNDAMENTAL INDUSTRIAL SECURITIES INVESTMENT FUNDS	1,467,730	A-share

§3. Discussion and Analysis of the management

3.1 Brief analysis of total status of operating activities in the report period

This report period is Shenzhen’s the peak period of demand for power. Shenzhen’s volume of power supply has reached 11,028 million KWH, up 18% year-on-year, including networked volume of power was 3,048 million KWH from local fuel power plants, up 15.94% year-on-year; Shenzhen's highest power loan has reached 6,853,000 KW, up 18.11% year-on-year. Due to badly-needed power market, Shenzhen Municipal Government adopted compellent stagger peak measure. From Jan. to Sep., Shenzhen's volume of power supply has reached 27,566 million KWH, up 21.84% year-on-year, including networked volume of power was 8,233 million KWH from local fuel power plants, up 30.64% year-on-year; Shenzhen's highest power loan has reached 6,853,000 KW, up 18.11% year-on-year.

During the report period, Nanshan Power Station Plants, wholly-owned subsidiary company of the Company, completed the volume of power generation of 960,217,700 KWH, up 4.1% year-on-year; and it has accumulatively completed the annual volume of power generation of 2,817,411,800 KWH, up 25.84% year-on-year. In the face of unceasing rise of the fuel price in international market, on one hand, the Company closely followed the tendency of fuel price of international market, and reasonably arranged the annual purchasing plan of fuel; on the other hand, the Company actively sought new purchasing channel of oil products, and reduced purchasing cost. From Jan. to Sep., the average price the Company purchased heavy oil was nearly RMB 1,780 per ton, up less than 5% year-on-year; consequently, the comprehensive fuel cost has increased by RMB 54 million compared with the same period of last year. At the same time, the Company strictly controlled every links of power production, from Jan. to Sep., networked oil consumption ratio of power generation sets was only 196 grams/KWH, decreasing more than 4 grams/KWH, and the fuel cost has decreased by RMB 21 million. In order to upgrade the running efficiency and reliability of power generation equipment and ensure intactness ratio and adjustable capacity ratio of power generation equipment, the Company mainly overhauled the #1 and #7 gas engine of Nanshan Power Plant at the year-begin, the actual repairs and maintenance expenses occurred amounting to RMB 70 million was reckoned into this year, additionally, pulsing daily maintenance expenses, ended September, the actual repairs and maintenance expenses occurred is RMB 84 million, an increase of RMB 25 million compared with the same period of last year.

Shen Nan Dian (Zhongshan) Power Co., Ltd., the Company holds its 80% equity, has completed the investment of RMB 883 million, the first set of gas engine single circle power generation sets (123,400 KW) has accomplished and put into trial-performance on Jun. 15, 2004, the second set of gas engine combined circle power generation sets (180,000 KW) was under intense construction. The technical renovation project on use of surplus heat of diesel engine implemented by Zhongshan Jiafa Power Co., Ltd. and Zhongshan Zhongfa Power Co., Ltd., which the Company invested RMB 50 million dated Dec. 8, 2003, has completed on Sep. 27, 2004 and put into production for power generation. The project of natural gas engine power station invested by the Company in Gaobu Town, Dongguan City, Guangdong Province has singed formally, presently, and the various earlier stage tasks was making good progress.

Since Shenzhen Shen Nan Dian Gas Engine Engineering Technology Co., Ltd. established at the year-begin, which the Company holds its 60% equity, the Company grasped the great opportunity of the national power position tight, fully undertook engineering construction of internal gas engine power station, and has undertook the general undertaking of engineering construction and technical service in succession in aspect of the gas engine power station such as Zhongshan Nanlang Power Plant, Shenzhen Fuhuade Power Plant, Foshan Shakou Power Plant and Zhejiang Jinhua Power Plant. Ended September, it realized an income from main operations of RMB 50.5 million, a net profit of RMB 30.7183 million and revenue of RMB 18.431 million.

During the report period, through strengthening inner management and digging up inner potential, finally, the Company realized an income from main operations of RMB 615,193,700, net profit of RMB 143,761,000 and earnings per share of RMB 0.26 under overcoming many disadvantageous factors. From Jan. to Sep., the Company realized an income from main operations of RMB 1,723,173,000 in total, up 29.86% compared with the same period of previous year; the Company realized a net profit of RMB 321,370,000 and earnings per share of RMB 0.59.

3.1.1 Particulars about core industries or products taking over 10% of the total amount of income from main operations or profit of main operations

√Applicable ☐Inapplicable

Unit: RMB’0000

Product	Income from main operations (RMB)	Cost of main operations (RMB)	Gross profit ratio (%)
Power production (Jul.-Sep.)	56,919.37	41,651.96	26.76
Undertaking of engineering	4,600.00	638.44	83.03

3.1.2 Seasonal or periodic characteristic of the operation of the Company

√Applicable ☐Inapplicable

The Company was engaged in power production, which is one of Shenzhen City combustion engine peak-regulating power generation enterprise, and the power production has clear periodicity.

The purchasing price of fuel used by the Company in production suffered the influence of periodicity fluctuation of the fuel price in international market to a certain extent.

3.1.3 Profit structure in the report period (material changes in proportion of operating profit, financing cost and share of profit of associated companies in profit before tax than that in the last report period and reasons)

√Applicable ☐Inapplicable

Unit: RMB’000

Items	Jul. – Sept. 2004		Jan. – Jun. 2004		Increase/decrease
	Amount	Proportion in total profit	Amount	Proportion in total profit	
Profit before tax	176,193	100.00%	197,427	100.00%	0.00%
Operating profit	180,122	102.23%	201,809	102.22%	0.01%
Financing cost	-6,130	-3.48%	-9,452	-4.79%	-27.33%

Share of profit of associated companies	2,201	1.25%	5,070	2.57%	-51.36%

Main reasons for changes:
1. In the report period, proportion of operating profit in profit before tax was basically the same as that in the last period.
2. In the report period, proportion of financing cost in profit before tax decreased over the last report period, which was because that financial expenses relatively decreased in the report period.
3. In the report period, proportion of share of profit of associated companies in profit before tax decreased, which was mainly because investment earnings relatively decreased in the report period.

3.1.4 Material changes in main operations and its structure than that of the last report period and reasons

□Applicable √Inapplicable

3.1.5 Material changes in profitability of main operations (gross profit ratio) than that of the last report period and reasons

√Applicable □Inapplicable

Industries or products	Gross profit ratio (Jul. – Sept. 2004)	Gross profit ratio (Jan. – Jun. 2004)
Production of electricity	26.76%	19.14%
Engineering contract	83.03%	32.32%

Explanation on reasons:
1. In the report period, gross profit ratio of electrical production increased over the last report period, which was mainly because that the proportion of great repair expenses of generating sets accrued at the beginning of the year and reckoned in the last report period in cost of main operations was relatively large, thus resulting in decrease in gross profit ratio.
2. In the report period, gross profit ratio of engineering contract increased over the last report period, which was because that the cost necessary for engineering contract decreased in a relatively great margin.

3.2 Significant events and analysis to their influences and solutions

√Applicable □Inapplicable

1. In July 2004, the Company received value-added tax amounting to RMB 19,104,156.55 of homemade equipments for 1st and 2nd stage engineering in technical reform of "Substituting the big for the small" from Shenzhen Local Taxation Bureau Shekou Sub-bureau. (For details, please refer to relevant notices of the Company on July 31, 2004.) According to relevant provisions in Accounting System for Business Enterprises, the Company reduced value of this item accordingly and adjusted

over-appropriated depreciation in divided years meanwhile. Depreciation over appropriated in previous years amounting to RMB 1,876,500 was reckoned in gains and losses in previous years, which adjusted amount at year-beginning in accounting statements; the depreciation over appropriated in that year amounting to RMB 802,900 was reckoned in gains and losses in that year.

2. After decided by the 9th Meeting of the 4th Board of Directors of the Company, for the transfer of such three sets of combustion engines as 21, 22 and 23 (3*25,000KW) under the affiliated Nanshan Power Plant, the Company signed Contract on Transfer of Auxiliary Set with Wuhan Steel Construction Engineering Group Company Limited at total price amounting to RMB 20 million, which has liquidized the Company's assets. At present, transfer of sets is under dealing.

3. In order to expand the Company's market share in the field of electricity generating of combustion engine and strengthening its anti-risk capacity, meanwhile, combining project "LNG natural gas pipe network" in Dongguan, Guangdong, after decided by the 9th Meeting of the 4th Board of Directors and the 1st Provisional Shareholders' General Meeting 2004 of the Company, the Company and Hong Kong Xingdesheng Co., Ltd. jointly invested RMB 396.80 million to establish Shennandian (Dongguan) Wonderful Power Co., Ltd.", a Sino-foreign joint venture, which is responsible for investing and constructing project of natural gas combustion engine power plant in Gaobu Town, Dongguan, with Hong Kong Xinyuan Co., Ltd., Dongguan Wonderful Ceramics Industrial Park Co., Ltd. and Dongguan Gaobu Industrial Development Corporation. The said project is divided into the engineering 1st and 2nd phase, which respectively invests and constructs a set of gas – steam combined circulating generating sets with installed capacity amounting to 1*180,000 KW (including a set of PG9171E-typed gas turbine single-circulated generating sets with installed capacity amounting to 123,400 KW and accessorily constructing a set of combined circulating steam turbine generating sets amounting to 60,000 KW). Its total installed capacity is 360,000 KW and its total dynamic investment is RMB 1204 million. It is planned to be put into production during the peak period of power consumption in 2005 and 2006. (For details, please refer to relevant notices of the Company on Aug. 4 and Sept. 3 2004.)

4. After decided by the 9th Meeting of the 4th Board of Directors, the Company proposes Mr. Xu Jing'an as an candidate of independent director of the Company. The said proposal has been considered and passed by the 1st Extraordinary Shareholders' General Meeting 2004 of the Company. (For details, please refer to relevant notices of the Company on Aug. 4 and Sept. 3, 2004.)

3.3 Changes in accounting policy, accounting estimate and consolidated scope and significant accounting errors and reasons

□Applicable √Inapplicable

3.4 Relevant explanations from the Board of Directors and the Supervisory Committee in the event of being audited and produced "Non-standard Opinion"

□Applicable √Inapplicable

3.5 Forecasting of accumulated net profit from the beginning of the year to the end of the next report period probably to be in deficiency or warning of its great changes than that of the same period of last year and reasons

□Applicable √Inapplicable

3.6 Roll adjustments of the Company to the disclosed annual business plan or budget

□Applicable √Inapplicable

Board of Directors of
Shenzhen Nanshan Power Station Co., Ltd.
Oct. 19, 2004

SHENZHEN NANSHAN POWER STATION CO., LTD.
CONSOLIDATED BALANCE SHEET

	Unaudited 30-Sep 2004 RMB’000	Audited 31-Dec 2003 RMB’000
Intangible assets	-61,272	-61,045
Fixed assets	1,187,258	1,314,880
Construction in progress	982,535	231,976
Interest in associated companies	8,894	3,622
Investment securities	71,885	71,885
Current assets		
Inventories	211,857	150,316
Trade receivables	209,300	216,190
Amount due from a minority shareholder	49,680	23,530
Other receivables, deposits and prepayments	122,685	58,042
Bank balances and cash	453,821	494,178
	1,047,343	942,256
Current liabilities		
Trade payables	18,131	5,476
Amounts due to associated companies	7,047	3,238
Amount due to a related company	13,865	13,865
Other payables and accrued charges	22,782	140,348
Taxation payable	29,912	48,657
Bank loans, unsecured	1,123,283	622,329
	1,215,020	833,913
Net current (liabilities)/assets	-167,677	108,343
Total assets less current liabilities	2,021,623	1,669,661
Financed by:		
Share capital	547,966	547,966
Reserves	542,365	521,098
Retained earnings		
Proposed interim/final dividend	-	256,448
Others	496,338	194,309

Shareholders' funds	1,586,669	1,519,821
Minority interests	55,973	19,840
Bank loans, unsecured	378,981	130,000
	2,021,623	1,669,661

SHENZHEN NANSHAN POWER STATION CO., LTD.
CONSOLIDATED PROFIT AND LOSS ACCOUNT

	30/09/2004 RMB'000	7-9/2004 RMB'000	30/09/2003 RMB'000	7-9/2003 RMB'000
Turnover	1,723,173	615,194	1,326,984	523,246
Other revenues	8,038	22	92,897	811
	1,731,211	615,216	1,419,881	524,057
Fuel costs	-990,720	-330,229	-741,587	-285,925
Staff costs	-91,183	-38,998	-85,711	-27,494
Depreciation of fixed assets	-119,953	-40,506	-99,695	-37,792
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Share of profit of associated companies	7,271	2,201	-	
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Taxation	-39,963	-20,059	-25,469	1,486
Profit after taxation	333,657	156,134	333,950	116,853
Minority interests	-12,287	-12,373	-	
Profit attributable to shareholders	321,370	143,761	333,950	116,853

SHENZHEN NANSHAN POWER STATION CO., LTD.

CONSOLIDATED CASH FLOW STATEMENT

	Unaudited nine months ended 30-Sep-04 RMB'000
Net cash inflow generated from operations	273,329
Interest paid	-15,582
PRC income tax paid	-57,617
Net cash inflow from operating activities	200,130
Investing activities	
Purchase of fixed assets and payments for construction in progress	-747,291
Purchase of investment securities	
Purchase of interest in a subsidiary	
Proceeds from disposals of fixed assets	10296
Interest received	2113
Dividend received from associated company	908
Net cash outflow from investing activities	-733,974
Net cash inflow before financing	-533,844
Financing activities	
New loans raised	1,979,504
Repayment of loans borrowed	-1,229,569
Decrease in pledged bank deposits	
Dividends paid	-256,448
Net cash outflow from financing	493,487
Increase in cash and cash equivalents	-40,357
Cash and cash equivalents at 1 January	494,178
Effect of foreign exchange rate changes	
Cash and cash equivalents at 31 December	453,821

Operating profit	381,931
Depreciation of fixed assets	119,953
Impairment of fixed assets	
Loss on disposal of fixed assets	-10,296
Amortisation of intangible assets	227
Write-down of inventories to net realisable value	
Recovery of doubtful debts previously written off	
Interest income	-2,113
Operating profit before working capital changes	489,702
(Increase)/decrease in inventories	-61,541
Decrease in amount due from a related company, trade receivables, other receivables, deposits and prepayments	-83,903
Increase in amount due to a related company and associated company, trade payables, other payables and accrued charges	-70,929
Net cash inflow generated from operating activities	273,329