SHENZHEN NANSHAN POWER STATION CO., LTD.

REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2004

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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 27 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 Institute of Certified Public 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.

Opinion

In our opinion the accounts give a true and fair view of the state of the Group's affairs as at 31 December 2004 and of its profit and cash flows for the year then ended.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 4 March 2005

SHENZHEN NANSHAN POWER STATION CO., LTD.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 RMB'000	2003 RMB'000
Turnover	3	2,432,712	1,863,937
Other revenues	3	111,839	94,556
		2,544,551	1,958,493
Fuel costs		(1,391,848)	(1,023,375)
Construction costs		(179,809)	-
Staff costs	4	(119,611)	(85,859)
Depreciation of fixed assets		(157,442)	(137,831)
Amortisation of intangible assets		(8,643)	(2,055)
Operating lease expenses - equipment		(38,204)	(30,375)
Repairs and maintenance expenses		(111,178)	(59,291)
Other operating expenses	5	(37,505)	(62,190)
Operating profit		500,311	557,517
Finance costs	6	(26,775)	(12,367)
Share of profit of associated companies		14,015	1,437
Profit before taxation		487,551	546,587
Taxation	7	(29,277)	(70,592)
Profit after taxation		458,274	475,995
Minority interests		(13,692)	-
Profit attributable to shareholders		444,582	475,995
Dividend	8	273,983	256,448
Earnings per share - basic	9	RMB0.81	RMB0.87

SHENZHEN NANSHAN POWER STATION CO., LTD.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2004

	Note	2004	2003
		RMB'000	RMB'000
Intangible assets	10	(19,653)	(61,045)
Fixed assets	11	1,206,501	1,314,880
Construction in progress	12	1,247,505	231,976
Interests in associated companies	13	16,536	3,622
Investment securities	14	71,885	71,885
Deferred tax assets	25	9,280	-
Current assets			
Inventories	15	249,409	150,316
Trade receivables		234,363	216,190
Amount due from a minority shareholder	17	11,680	23,530
Other receivables, deposits and prepayments		114,076	58,042
Bank balances and cash	16	581,651	494,178
		1,191,179	942,256
Current liabilities			
Trade payables		92,758	5,476
Amount due to a customer on construction contract	18	20,499	-
Amounts due to associated companies	19	4,000	3,238
Amount due to a related company	20	13,865	13,865
Other payables and accrued charges		71,008	140,348
Taxation payable		28,676	48,657
Bank loans, unsecured	21	1,252,734	622,329
		1,483,540	833,913
Net current (liabilities)/assets		(292,361)	108,343
Total assets less current liabilities		2,239,693	1,669,661
Financed by:			
Share capital	22	547,966	547,966
Reserves	23	652,207	521,098
Retained earnings	24		
Proposed final dividend		273,983	256,448
Others		233,980	194,309
Shareholders' funds		1,708,136	1,519,821
Minority interests		102,033	19,840
Bank loans, unsecured	21	429,524	130,000
		2,239,693	1,669,661

SHENZHEN NANSHAN POWER STATION CO., LTD.

Director Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 RMB'000	2003 RMB'000
Total equity as at 1 January		1,519,821	1,274,445
Declaration of dividend	24	(256,448)	(230,146)
Profit for the year		444,582	475,995
Exchange differences	23	181	60
Utilisation of public welfare fund	23	-	(533)
Total equity as at 31 December		1,708,136	1,519,821

SHENZHEN NANSHAN POWER STATION CO., LTD.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 RMB'000	2003 RMB'000
Operating activities			
Cash received from customers		2,792,668	2,137,328
Cash received for the government grants		57,566	-
Cash paid to suppliers		(1,787,233)	(1,269,047)
Cash paid to and on behalf of employees		(109,180)	(104,481)
Other cash received		3,533	15,750
Other cash payments		(432,517)	(327,847)
Net cash inflow generated from operations	26(a)	524,837	451,703
Interest paid		(52,442)	(17,934)
PRC income tax paid		(58,346)	(64,456)
Net cash inflow from operating activities		414,049	369,313
Investing activities			
Purchase of fixed assets and payments for construction in progress and intangible assets		(1,107,201)	(582,762)
Purchase of interest in a subsidiary from minority shareholder		-	(56,320)
Sale of fixed assets		13,704	-
Dividend received from an associate company		909	-
Dividend received from investment securities		-	867
Interest received		3,849	5,033
Repayment of loan to/(loan to) a minority shareholder		20,000	(20,000)
Net cash outflow from investing activities		(1,068,739)	(653,182)
Net cash outflow before financing		(654,690)	(283,869)
Financing activities	26(b)		
New loans raised		1,552,258	752,329
Repayment of loans borrowed		(622,329)	(335,000)
Capital contribution from minority shareholders of subsidiaries		68,501	19,840
Dividend paid		(256,448)	(230,138)
Net cash inflow from financing		741,982	207,031
Increase/(decrease) in cash and cash equivalents		87,292	(76,838)
Cash and cash equivalents at 1 January		494,178	570,956
Effect of foreign exchange rate changes		181	60
Cash and cash equivalents at 31 December	16	581,651	494,178

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, construction of power station and related businesses 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 Institute of Certified Public Accountants (the "HKICPA") (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.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(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.

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.

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, comprising leasehold improvements, buildings, motor vehicles, furniture, fixtures and other equipment 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%
Leasehold improvements	20% - 50%

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. Depreciation is not provided on construction in progress until the related asset is completed for intended use and transferred to fixed assets.

(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.

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) Construction contracts in progress

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction contracts, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts, under current liabilities.

2 Principal accounting policies (continued)

(k) 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.

(l) 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.

(m) 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.

(n) 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.

2 Principal accounting policies (continued)

(o) 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.

(p) 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.

(q) 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").

The recognition of the income from construction contracts in progress refers to note 2(j).

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.

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

Insurance claim is recognised when the right to receive payment is confirmed.

(r) 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.

2 Principal accounting policies (continued)

(s) 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.

(t) 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.

(u) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the only reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets.

As the sales of the Group are principally made to customers in the PRC, no geographical segment reporting is presented.

3 Turnover and revenues

The Group is principally engaged in the generation of electricity, construction of power station and related businesses. Revenues recognised during the year are as follows:

	2004 RMB'000	2003 RMB'000
Turnover		
Sales of electricity (note (a))	2,218,011	1,863,937
Construction of power station	214,701	-
	2,432,712	1,863,937
Other revenues		
Government grants		
- value-added tax refunds (note (b))	-	72,906
- income tax refunds (note (c))	51,641	-
- other subsidy	5,925	-
Technique consultancy fee income	3,720	15,750
Interest income	3,849	5,033
Dividend income	-	867
Insurance claim (note (d))	38,800	-
Others	7,904	-
	111,839	94,556
Total revenues	2,544,551	1,958,493

(a) Amount 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 in 2003. The refund was recognised upon assessment and approval by the relevant authorities. Pursuant to the circular "Shenguoshuifa [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) Pursuant to various circulars issued by the Shenzhen local taxation authority and local government authorities, the Group received refunds on income tax paid as subsidies for domestic purchase of machineries for the years from 2000 to 2003. The refunds are recognised upon approval by the relevant authorities.

(d) Insurance claim represents the compensation from an insurance company for the damage on the generator caused by accident during the year.

3 Turnover and revenues (continued)

Primary reporting format – business segments

The Group is organised on a localised basis into two main business segments:

a. Sales of electricity
b. Construction of power station

Other operations of the Group mainly comprise the corporate administrate, investment in associated companies, none of which is of a sufficient size to be reported separately.

	Sales of electricity		Construction of power station		Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2,218,011	1,863,937	214,701	-	-	-	2,432,712	1,863,937
Segment results	455,887	557,850	40,384	-	4,040	(333)	500,311	557,517
Unallocated costs							-	-
Operating profit							500,311	557,517
Finance costs							(26,775)	(12,367)
Share of profits of associated companies	-	-	-	-	14,015	1,437	14,015	1,437
Profit before taxation							487,551	546,587
Taxation							(29,277)	(70,592)
Profit after taxation							458,274	475,995
Minority interests							(13,692)	-
Profit attributable to shareholders							444,582	475,995
Segment assets	3,662,665	2,497,572	24,848	-	19,184	2,380	3,706,697	2,499,952
Interests in associated companies	-	-	-	-	16,536	3,622	16,536	3,622
Total assets							3,723,233	2,503,574
Segment liabilities	1,847,910	952,197	57,932	-	7,222	11,716	1,913,064	963,913
Capital expenditure	1,129,501	591,109	2,826	-	541	-	1,132,868	591,109
Depreciation	156,937	137,831	496	-	9	-	157,442	137,831
Amortisation charge	8,643	2,055	-	-	-	-	8,643	2,055

There are no material sales or other transactions between the business segments.

4 Staff costs

	2004 RMB'000	2003 RMB'000
Wages and salaries	37,314	30,701
Bonuses	61,998	77,621
Retirement scheme contributions (note (a))	7,043	3,829
Allowances and others	13,712	1,660
Bonuses refunded (note (b))	(456)	(27,952)
	119,611	85,859

(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% (2003: 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 in 2003, 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:

	2004 RMB'000	2003 RMB'000
Provision for doubtful debts	-	157
Net exchange loss	372	706
(Gain)/loss on disposal of fixed assets	(5,363)	198

6 Finance costs

	2004 RMB'000	2003 RMB'000
Interest on bank loans	52,442	17,934
Less: amount capitalised in construction in progress (note 12)	(25,667)	(5,567)
	26,775	12,367

The average capitalisation rate applied to funds borrowed generally and used for the development of construction in progress was 4.7% (2003: 3.5%) per annum.

7 Taxation

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

	2004 RMB'000	2003 RMB'000
Current taxation-PRC income tax		
The Group	38,365	70,377
The associated companies	192	215
Deferred taxation (note 25)	(9,280)	-
	29,277	70,592

(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 Shenzhen, the PRC is 15% which is the preferential income tax rate for enterprises established in the Shenzhen Special Economic Zone.

(b) The subsidiaries, Shenzhen New Power Industrial Co., Ltd. ("SNP") and Shenzhen Shennan Power Gas Turbine Engineering Technique Co., Ltd. ("Shennan Engineering"), are both sino-foreign joint venture and engaged in power generation business and construction and technique consulting service for certain type power station respectively. They are both 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. The first profit making year of SNP and Shennan Engineering are 2002 and 2004 respectively. The income tax of SNP was provided at the rate of 7.5% (2003: Nil) for the year and no income tax was provided for Shennan Engineering for the year (2003: Nil).

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:

	2004 RMB'000	2003 RMB'000
Profit before taxation	487,551	546,587
Calculated at a taxation rate of 15% (2003: 15%)	73,133	81,988
Profit earned in the tax holiday period	(35,522)	(14,431)
Income not subject to taxation	(8,453)	(732)
Expenses not deductible for taxation purposes	685	3,717
Reversal of the loss unrecognised in prior years	(1,910)	-
Unrecognised tax losses	1,344	50
Taxation charge	29,277	70,592

8 Dividend

	2004 RMB'000	2003 RMB'000
Final, proposed	273,983	256,448

At a meeting held on 4 March 2005 the directors declared a final dividend of RMB0.500 (2003: RMB0.468) 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 2005.

9 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB444,582,000 (2003: RMB475,995,000) and the number of shares in issue of 547,966,000 (2003: 547,966,000).

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

10 Intangible assets

	Negative goodwill (note (a))	Amounts paid for the construction of electricity output facilities (note (b))	Amounts paid for the construction of generator facilities (note (c))	Software	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2004					
Opening net book amount	(68,397)	7,352	-	-	(61,045)
Addition	-	-	50,000	35	50,035
Amortisation for the year	4,885	(5,190)	(8,333)	(5)	(8,643)
Closing net book amount	(63,512)	2,162	41,667	30	(19,653)
At 31 December 2004					
Cost	(73,282)	81,900	50,000	35	58,653
Accumulated amortisation	9,770	(79,738)	(8,333)	(5)	(78,306)
Net book amount	(63,512)	2,162	41,667	30	(19,653)
At 31 December 2003					
Cost	(73,282)	81,900	-	-	8,618
Accumulated amortisation	4,885	(74,548)	-	-	(69,663)
Net book amount	(68,397)	7,352	-	-	(61,045)

(a) The negative goodwill represents the excess of the fair value of the Group's share of the net assets of a subsidiary at the date of acquisition over the cost of acquisition, as adjusted by the amount of dividend waived (net of tax) by a former minority shareholder and is amortised over the remaining weighted average useful life of non-monetary assets of the subsidiary acquired of 15 years.

10 Intangible assets (continued)

(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.

(c) Pursuant to an agreement entered between the Company, Zhongshan City Power Development Company Limited ("Zhongshan Power"), a minority shareholder of a subsidiary and Zhongshan Zhongfa Power Company Limited ("Zhongfa Power"), Zhongshan Jiafa Power Company Limited ("Jiafa Power") on 8 December 2003, the Company provided technical consultancy service and funds of RMB25,000,000 each to Zhongfa Power and Jiafa Power to purchase production assets for increase of electricity output and efficiency of Zhongfa Power and Jiafa Power. In return for the funds contributed, these assets are owned and put under the control of the Company for six years from 1 January 2004 to 31 December 2009 and a technical consultancy fee of RMB620,000 per month is payable each by Zhongfa Power and Jiafa Power to the Company for a period from 27 September 2004, when the new generator facilities started the commercial operation, to 31 December 2009.

11 Fixed assets

	Land use rights and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles, furniture, fixtures and other equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost					
At 1 January 2004	129,615	2,162,147	56,048	-	2,347,810
Additions and reclassification	3,925	(2,757)	12,945	-	14,113
Transfer from construction in progress (note 12)	30,276	1,768	9,795	11,352	53,191
Disposals	-	(218,359)	(8,321)	-	(226,680)
At 31 December 2004	163,816	1,942,799	70,467	11,352	2,188,434
Accumulated depreciation and impairment					
At 1 January 2004	58,630	935,605	38,695	-	1,032,930
Depreciation charge	5,936	133,281	16,215	2,010	157,442
Disposals	-	(203,801)	(4,638)	-	(208,439)
At 31 December 2004	64,566	865,085	50,272	2,010	981,933
Net book value					
At 31 December 2004	99,250	1,077,714	20,195	9,342	1,206,501
At 31 December 2003	70,985	1,226,542	17,353	-	1,314,880

(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.

12 Construction in progress

	2004 RMB'000	2003 RMB'000
At 1 January	231,976	54,864
Finance cost capitalised (note 6)	25,667	5,567
Additions	1,043,053	563,683
Transfer to fixed assets (note 11)	(53,191)	(392,138)
At 31 December	1,247,505	231,976

The amount mainly represents the new generators under construction as at 31 December 2004.

13 Interests in associated companies

	2004 RMB'000	2003 RMB'000
Share of net assets	16,536	3,622

As at 31 December 2004, 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")	RMB12,000,000	-	20%	Management of fuel pipes and trading

14 Investment securities

	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	71,885	71,885

As at 31 December 2004, 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

15 Inventories

	2004 RMB'000	2003 RMB'000
Fuel oil	139,894	35,771
Spare parts and consumables	116,359	121,389
	256,253	157,160
Less: provision	(6,844)	(6,844)
	249,409	150,316

Total cost of inventories recognised as fuel costs, repairs and maintenance and other expenses of the year was RMB1,475,135,000(2003: RMB1,082,329,000).

At 31 December 2004, inventories with cost amounted to RMB6,844,000 (2003: RMB6,844,000) were carried at zero realisable value.

16 Bank balances and cash

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

	2004 RMB'000	2003 RMB'000
Bank balances and cash	581,651	494,178

17 Amount due from a minority shareholder

At 31 December 2004, the amount due from a minority shareholder is unsecured and free interest and repayable on demand.

At 31 December 2003, the amount due from a minority shareholder was unsecured and included a loan of RMB20,000,000 which was charged at prevailing bank borrowing rate and for a period of six months. The remaining balance was interest free and repayable on demand.

18 Amount due to a customer on construction contract

	2004 RMB'000	2003 RMB'000
Contract costs incurred plus attributable profits less foreseeable losses to date	123,001	-
Less: progress billings to date	(143,500)	-
Balance included in current liabilities	(20,499)	-

19 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.

20 Amount due to a related company

The amount due to a related company represents the dividend payable to Shenzhen Jinbiwan Investment Development Company Limited, 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.

21 Bank loans, unsecured

	2004 RMB'000	2003 RMB'000
Wholly repayable within one year	1,252,734	622,329
Wholly repayable within two to five years	429,524	130,000
	1,682,258	752,329

22 Share capital

	2004 RMB'000	2003 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	547,966	547,966

Pursuant to the Company's articles of association, except for the denominated currency of dividend 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 2004	220,373	197,667	22,749	79,677	632	521,098
Appropriation from retained earnings	-	84,029	-	42,014	-	126,043
Transfer to capital reserve	4,885	-	-	-	-	4,885
Exchange differences	-	-	-	-	181	181
At 31 December 2004	225,258	281,696	22,749	121,691	813	652,207
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
Transfer to capital reserve	4,885	-	-	-	-	4,885
Exchange differences	-	-	-	-	60	60
Utilisation of public welfare fund	-	-	-	(533)	-	(533)
At 31 December 2003	220,373	197,667	22,749	79,677	632	521,098

(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.

23 Reserves (continued)

(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.

24 Retained earnings

	2004 RMB'000	2003 RMB'000
At 1 January	450,757	296,800
Profit for the year	444,582	475,995
Transfer to capital reserve	(4,885)	(4,885)
Appropriation to funds	(126,043)	(87,007)
Dividend declared	(256,448)	(230,146)
At 31 December	507,963	450,757

The retained earnings at year end represent:

	2004 RMB'000	2003 RMB'000
A final dividend proposed after year end (note 8)	273,983	256,448
Others	233,980	194,309
	507,963	450,757

(a) As at 31 December 2004, the retained earnings of the Group included accumulated losses of RMB11,221,000 (2003: RMB25,428,000) 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 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 15% for the year.

The movement on the deferred tax assets account is as follows:

	2004 RMB'000	2003 RMB'000
At 1 January	-	-
Deferred taxation credited to profit and loss account (note 7)	9,280	-
At 31 December	9,280	-

Deferred tax assets	Impairment of assets		Others		Total	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1st January	-	-	-	-	-	-
Credited to profit and loss account	4,608	-	4,672	-	9,280	-
At 31st December	4,608	-	4,672	-	9,280	-

26 Notes to the consolidated cash flow statement

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

	2004 RMB'000	2003 RMB'000
Operating profit	500,311	557,517
Depreciation of fixed assets	157,442	137,831
(Gain)/loss on disposal of fixed assets	(5,363)	198
Amortisation of intangible assets	8,643	2,055
Provision for doubtful debts	-	157
Dividend received from investment securities	-	(867)
Interest income	(3,849)	(5,033)
Operating profit before working capital changes	657,184	691,858
Increase in inventories	(99,093)	(63,407)
Increase in amounts due from a minority shareholder, trade receivables, other receivables, deposits and prepayments	(72,458)	(82,393)
Increase/(decrease) in amounts due to a related company and associated companies, a customer on construction contracts, trade payables, other payables and accrued charges	39,204	(94,355)
Net cash inflow generated from operating activities	524,837	451,703

(b) Analysis of changes in financing during the year

	Bank loans		Minority interests	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1 January	752,329	335,000	19,840	145,369
Capital contribution from minority shareholder	-	-	68,501	19,840
Minority interest's share of profit	-	-	13,692	-
Acquisition of interest in a subsidiary from minority shareholder	-	-	-	(145,369)
New loans raised	1,552,258	752,329	-	-
Repayment of loans borrowed	(622,329)	(335,000)	-	-
At 31 December	1,682,258	752,329	102,033	19,840

27 Commitments

(a) Capital commitments for fixed assets

At 31 December 2004, the Group had capital commitments for acquisition and construction of fixed assets as follows:

	2004 RMB'000	2003 RMB'000
Contracted but not provided for	956,290	194,664

(b) Commitments under operating leases

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2004 RMB'000	2003 RMB'000
Not later than one year	30,191	38,160
Later than one year and not later than five years	8,653	37,152
	38,844	75,312

28 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:

	2004 RMB'000	2003 RMB'000
The associated companies		
- Shenzhen Server		
Purchase of fuel oil	-	17,555
Leasing of fuel oil tankers	38,204	30,375
- Yueliangwan Renhe		
Fuel oil transportation fee paid	6,912	3,903

29 Subsidiaries

As at 31 December 2004, 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.	PRC	RMB57,500,000	75%	25%	Power generation
Shennandian (Zhongshan) Power Co., Ltd.	PRC	RMB198,400,000	55%	25%	Power generation (yet to commence operation)
Shenzhen Shennan Power Gas Turbine Engineering Technique Co., Ltd.	PRC	RMB10,000,000	60%	-	Technique consulting service for construction of power station and repair service
Shennandian (Dongguan) Weimei Power Co., Ltd.	PRC	RMB99,235,000	40%	15%	Power generation (yet to commence operation)

30 Ultimate holding company

The directors regard the Company has no ultimate holding company.

31 Approval of accounts

The accounts were approved by the board of directors on 4 March 2005.

SHENZHEN NANSHAN POWER STATION CO., LTD.

SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2004

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 2004 RMB'000	Net assets as at 31 December 2004 RMB'000
As per PRC statutory accounts	439,697	1,771,648
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	(63,512)
As per HK GAAP accounts	444,582	1,708,136