# SHENZHEN NANSHAN POWER CO., LTD.

# THE THIRD QUARTERLY REPORT 2005 (OVERSEAS)

No.： 2005－37

## §1. Important Notice

1.1 The Board of Directors of Shenzhen Nanshan Power 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 or 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 had objection for this report.

1.3 Wang Jianbin, Deputy Chairman of the Board, didn’t attend the Meeting due to work and authorized director Zhong Chengli to be present and exert right of voting on his behalf; Independent director Huang Sujian and Yu Xiufeng were not present due to work reasons and respectively authorized independent director Zhou Chengxin to attend and wield voting right on their behalf.

1.4 The statements in this Financial Report of the Company have not been audited.

1.5 Chairman of the Board Mr. Wei Wende, General Manager Mr. Fu Bo, 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 | Hu Qin | Hu Qin |
| Address | 16/F, 17/F, Hantang Building, OCT, Nan Shan District, Shenzhen | |
| Tel. | (86) 755-26003683 | |
| Fax. | (86) 755-26003684 | |
| E-mail | huqin@nspower.com.cn | |

2.2 Financial information

2.2.1 Major accounting data and financial indexes

Unit: (RMB)'000

| Items | At the end of this report period | At the end of last year | Increase/decrease at the end of report period compared with the end of last year (%) |
|---|---|---|---|
| Total assets | 4,660,549 | 3,786,745 | 23.08 |
| Shareholders' equity (excluding minority interests) | 1,480,820 | 1,708,136 | -13.31 |
| Net assets per share | 2.70 | 3.12 | -13.46 |
| | **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 | - | 20,029 | - |
| Earnings per share | -0.077 | -0.029 | -129.62 |
| Earnings yield of net assets | -2.84% | -1.09% | Decreased by 11.47 percentage points |
| **Items of non-recurring gains and losses (January - September)** | | | |
| Subsidy income | 28,051 | | |

2.2.2 Difference between the domestic net profit and overseas net profit

□Applicable √ Inapplicable

2.2.3 Income statement

**Shenzhen Nanshan Power Co., Ltd.**

**Income Statement**

(Jan. 1, 2005 – Sep. 30, 2005)

Unit: RMB'000

| | Nine months ended Sep. 30, 2005 | Nine months ended Sep. 30, 2004 |
|---|---|---|
| Turnover | 2,274,012 | 1,723,173 |
| Other revenues | 11,035 | 8,038 |
| | 2,285,047 | 1,731,211 |
| | | |
| Fuel costs | -1,882,584 | -990,720 |
| Construction costs | -78,821 | |
| Staff costs | -61,276 | -91,183 |
| Depreciation of fixed assets | -143,538 | -119,953 |

| | | |
|---|---:|---:|
| Amortisation of intangible assets | -9,941 | -227 |
| Operating lease expenses - equipment | -23,782 | -27,872 |
| Repairs and maintenance expenses | -33,474 | -84,179 |
| Other operating expenses | -24,208 | -35,146 |
| Operating profit | 27,424 | 381,931 |
| Finance costs | -51,329 | -15,582 |
| Share of profit from associated companies | 10,571 | 7,271 |
| Profit before taxation | -13,333 | 373,620 |
| Taxation | -12,400 | -39,963 |
| Profit after taxation | -25,733 | 333,657 |
| Minority interests | 9,611 | -12,287 |
| Profit due to shareholders | -16,121 | 321,370 |

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 | 31,774 | |
|---|---|---|
| **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 or others)** |
| BNP P P/PANDA INVESTMENT CO., LTD. | 47,553,343 | B-share |
| MORGAN STANLEY INT’L (CHINA) - FIRM | 20,622,947 | B-share |
| INDUSTRIAL AND COMMERCIAL BANK OF CHINA – GUOLIAN ANDERSON SMALL REEL WELL-CHOSEN SECURITIES INVESTMENT FUND | 5,307,478 | A-share |
| SKANDIA GLOBAL FUNDS PLC | 5,252,266 | B-share |
| TOYO SECURITIES ASIA LIMITED-A/C CLIENT | 3,327,514 | B-share |
| NEITENG SECURITIES CO., LTD. | 3,023,556 | B-share |
| CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI 5496 | 2,736,978 | B-share |

| | | |
|---|---|---|
| JINBANG SECURITIES HOLDINGS CO., LTD. | 2,090,861 | B-share |
| DEUTSCHE BANK AG LONDON | 1,830,524 | B-share |
| GUOTAI JUNAN SECURITIES HONG KONG LIMITED | 1,521,600 | B-share |

## §3. Discussion and Analysis of the management

3.1 Brief analysis on the general status of operating activities in the report period

During the 3rd quarter of the year 2005, prices in the international crude oil futures market (WTA) keep climbing up and have broken a new high of the historical totaling $70.85 per barrel, while the fuel oil price in the Singapore market (FOB) has topped $ 344 per ton. Under these influences, the proportion of fuel costs taking up the power generation costs of the Company has increased to 89.72% in the 3rd quarter from the 84.96% during the upper half-year. The large-margin increase of fuel costs has placed unprecedented operating difficulties before the Company. What's more, the grid-connected power price of Shen Nan Dian (Zhongshan) Power Co., Ltd has not been approved yet and this company still adopts the temporary power price of RMB 0.457 per kilowatt (including tax) right now, resulting in the worsening situation of hanging upside down of oil price and power price. Confronted with this critical operating status and backed by the generous support of the shareholding units and the correct guidance of the Board and the management team, the Company has further strengthened budget management, normalized the internal operation, consolidated the achievements of increasing income and decreasing expenditure, spent greater efforts in minimizing consumption so as to reduce controllable costs. In the mean time, the Company has actively developed other operating businesses, strengthened communication and contacts with the relevant departments of the government, and tried to get various preferential policy so as to minimize the negative influence brought along by the high oil price as much as possible through the Company's own efforts.

1. Power generation

During the 3rd quarter, the subordinate shareholding power generation companies of the Company have stick to the management principle of "safety first, cost foremost", strictly abided by the management rules, practically assigned the safety responsibilities down to each person, step up inspection and tried to avoid any disaster before it takes place. In the report period, the subordinate companies have all kept a good safety record, and accomplished the safe production work of the quarter fairly well, with no significant accidents of fire, death toll, equipment damage or examination. During January and September, the average oil charge of heavy oil amounted to RMB 2,448.20 per ton, an increase of RMB 668.42 per ton year-on-year, up by 37.56%, while the average oil charge of light oil was RMB 3,616.22 per ton, an increase of RMB 612.73 per ton year-on-year, up by 20.40%. The oil expense has increased by RMB 399.9003 million compared with the same period of the previous year.

(1) The Nanshan Thermoelectric Plant and Shenzhen New Power Industrial Co., Ltd, wholly owned by the Company, have accomplished an electric-power output of 1077.4227 million kilowatt-hour, with the grid-connected comprehensive oil consumption totaling 186.36 grams per kilowatt-hour (translated into light oil).
(2) Zhongshan Nanlang Power Plant of Shen Nan Dian (Zhongshan) Power Co., Ltd accomplished an electric-power output of 314.378 million kilowatt-hour, with the grid-connected comprehensive oil consumption totaling 174.97 grams per kilowatt-hour (translated into light oil).
(3) The single loop of the first combustion machine of Dongguan Gaobu Power Plant, belonging to Shen Nan Dian (Dongguan) Power Co., Ltd, was finished on Sep. 8, and has been successfully fired and launched into operation all at once. Right now, this plant has satisfied the conditions to get connected to the grid to begin power generation, and is negotiating with Guangdong Grid Company on the grid connection agreement. The installation of the second combustion machine is under way in accordance with the original plan.
2. Others
(1) Projects contracted by Shenzhen Shen Nan Dian Combustion Machine Engineer Technology Co., Ltd (including offering technique consultation service) include Dongguan Tongming Power Plant and Dongguan Dongxing Power Plant, etc, and each project has progressed according to plan. While taking great care about the progress of the current projects, this company also actively makes contacts with potential customers and expands new construction projects as well as technical consultation and services.
(2) During the 3rd quarter, the project of combustion machine heat and power supply of Shenzhen New Power Industrial Co., Ltd has undergone a month of trial steam supply and the rectification to the problems of the steam supply pipes. Right now, trial steam supply has been resumes. At present, the Company is communicating with relevant departments, stepping up the examination arrangement for the project and applying for the authentication of the heat and power supply project.
In the report period, the Company has accomplished a power output of 1613.4234 million kilowatt-hour; the income from main operations amounts to RMB 762.0008 million, an increase of 23.86% compared with RMB 615.1937 million of the same period of last year; the cost of main businesses totals RMB 816.8538 million, an increase of 93.15% compared with RMB 422.904 million of the same period of last year; the profit from main operations is RMB –55.3151 million; the fuel oil subsidy income for the period during January and April, 2005 amounts to RMB 19.27665 million; the net profit is RMB –42.0007 million and the earnings per share RMB –0.077. During January and September, the income from main businesses totals RMB 2.2740125 billion, an increase of 31.97% year-on-year; the cost of main operations totals RMB 2.2387588 billion, an increase of 69.94% year-on-year; the profit from main businesses amounts to RMB 31.5777 million; the net profit totals RMB –16.1215 million and the earnings per share RMB –0.029.

3.1.1 Particulars about core businesses or products taking up over 10% of the total

amount of income from main operations or profit of main operations
√ Applicable ☐Inapplicable

Unit: (RMB)'000

| Business or product | Income from main operations | Cost of main operations | Gross profit ratio (%) |
|---|---|---|---|
| Power production (Jul.-Sep.) | 756,781.5 | 807,311.5 | -6.69 |
| Project contracting (Jul.-Sep.) | 600.0 | 4,542.5 | -712.63 |

Unit: (RMB)'000

| Area | Income from main operations | Cost of main operations | Gross profit ratio (%) |
|---|---|---|---|
| Shenzhen (Jul.-Sep.) | 641,985.1 | 648,585.9 | -1.10 |
| Zhongshan (Jul.-Sep.) | 120,015.7 | 168,267.9 | -40.20 |

3.1.2 Seasonal or periodical characteristics of the operation of the Company
√ Applicable ☐Inapplicable

The Company mainly engages in power generation and is a combustion machine peak-regulating power generation enterprise. Along with the continuous fast increase of power demand in Shenzhen and the practice of mandatory staggered power consumption policy, power generation tends to have a longer power generation peak and an even quarterly power output.
The purchasing price of the fuel oil used in the generation by the Company is exposed to the influence of the periodic fluctuations in the international oil products market to a fairly large extent. Therefore, due to the incessant climbing up of international oil price, the purchasing cost of oil products of the Company hovers high. The Company would adopt planned and centralized large-quantity purchase modes, search for new oil sources and spare no efforts to minimize the influence from the price fluctuation in the fuel oil market.

3.1.3 Profit structure in the report period (operating profit, and equity shared from affiliated companies)
√ Applicable ☐Inapplicable

Unit: (RMB)'000

| Items | Jul. – Sep. 2005 | | Jan. – Jun. 2005 | |
|---|---|---|---|---|
| | Amount | Proportion in total profit | Amount | Proportion in total profit |
| Profit before tax | -54,680 | 100% | 41,347 | 100% |
| Operating profit | -44,585 | 81.54% | 72,009 | 174.16% |
| Financing cost | -12,543 | 22.94% | -38,786 | -93.81% |
| Share of profit from associated companies | 2,447 | -4.48% | 8,124 | 19.65% |

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

| |
|---|
| Material changes in gross profit ratio than that of the last report period mainly due to price hikes in international oil market and fuel oil frequently hitting new high price, which resulted in fuel cost climbing in a large margin. |

3.2 Significant events and analysis to their influences and solutions

√ Applicable ☐Inapplicable

1. The project of Fuel-Heat Joint Supply by Combustion Engines, invested by Shenzhen New Power Co., Ltd., the sole subsidiary of the Company, has been put into use since June 30, 2005, central supplying gas to 15 Textile Printing Dyeing plants in Nanyou Branches of Nanshan District in Shenzhen. (For details please refers to the relevant public notice of the Company on July 1, 2005)

2. Due to market price of international fuel oil increased unceasingly and kept rising which resulted in power generation cost of the Company increased in a large margin, so the Company published warning public notice on achievement declining in a large margin dated July 16, 2005. (For details refers to the relevant public notice of the Company on July 16, 2005)

3. The Company held the 15th Meeting of the 4th Board of Directors on July 21, 2005, Mr. Cui Jichun resigned the director and deputy Chairman of the Board of the Company due to work reasons and the meeting elected director Mr. Sun Yulin as the deputy Chairman of the Board of the 4th Board of the Company and recommended Mr. He Yingyi as director candidates of the 4th Board of Directors of the Company. The Company held the 14th Meeting of the 4th Supervisory Committee on July 21, 2005, Mr. He Yingyi resigned the supervisor of the Company due to work reason and the Meeting elected Mr. Sun Peng as the supervisor candidate of the 4th Supervisory Committee of the Company. (For details refers to the relevant public notice on July 26, 2005)

4. On 22 August 2005 the Company held the 2nd Extraordinary Shareholders' General Meeting of 2005 and examined and approved Proposal on Non-listed Foreign Shares of Hong Kong Nanhai International Co., Ltd Applying for to be Domestic Listed Foreign Shares (B Shares) and Proposal on Amending Articles of Association of Nanshan Power Station. (For details refers to the relevant public notice of the Company on August 23, 2005)

5. The Company held the 3rd Extraordinary Shareholders' General Meeting of 2005 on August 29, 2005, the Meeting elected Mr. He Yingyi as director of the 4th Board of Directors of the Company and elected Mr. Sun Peng as supervisor of the 4th Supervisory Committee. (For details refers to the relevant public notice of the

Company on August 30, 2005)

6. During the report period, the Company received combined document from Bureau of Trade and Industry of Shenzhen Municipality and Finance Bureau of Shenzhen Municipality, and gave appropriate allowance to electrical amperage on power grid in Jan. – Apr., 2005 of Shenzhen Fuel Power Plant, the Company totally was rewarded subsidy amounting to RMB 19,276,650. (For details please refers to the relevant public notice of the Company dated Sep., 2nd, 2005)

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

3.7 Special promises made by original non-circulating shareholders in the period of share merger reform and its implementation

□Applicable √Inapplicable

**Board of Directors of**
**Shenzhen Nanshan Power Co., Ltd.**
Oct. 15, 2005

# Consolidated Income Statement

| | Nine months ended Sep. 30, 2005 RMB'000 | Nine months ended Sep. 30, 2004 RMB'000 |
|---|---|---|
| Turnover | 2,274,012 | 1,723,173 |
| Other revenues | 11,035 | 8,038 |
| | 2,285,047 | 1,731,211 |
| Fuel costs | -1,882,584 | -990,720 |
| Construction costs | -78,821 | |
| Staff costs | -61,276 | -91,183 |
| Depreciation of fixed assets | -143,538 | -119,953 |
| Amortisation of intangible assets | -9,941 | -227 |
| Operating lease expenses - equipment | -23,782 | -27,872 |
| Repairs and maintenance expenses | -33,474 | -84,179 |
| Other operating expenses | -24,208 | -35,146 |
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| Profit before taxation | -13,333 | 373,620 |
| Taxation | -12,400 | -39,963 |
| Profit after taxation | -25,733 | 333,657 |
| Minority interests | 9,611 | -12,287 |
| Profit due to shareholders | -16,121 | 321,370 |

# Consolidated Balance Sheet

| | 2005<br>30 September<br>RMB'000 | 2004<br>31 December<br>RMB'000 |
|---|---|---|
| Intangible assets | 41,525 | 43,859 |
| Fixed assets | 2,104,384 | 1,194,903 |
| Right of land use | 9,630 | 11,598 |
| Construction in progress | 825,084 | 1,247,505 |
| Equity of associated company | 27,107 | 16,536 |
| Investment securities | 71,885 | 71,885 |
| Deferred tax assets | 9,280 | 9,280 |
| | 3,088,896 | 2,595,566 |
| Current assets | | |
| Stock | 305,442 | 249,409 |
| Account receivable | 669,209 | 234,363 |
| Receivables – minority shareholders' accounts | | 11,680 |
| Other receivables, down payment and prepaid accounts | 229,383 | 114,076 |
| Balance and cash from bank | 367,620 | 581,651 |
| | 1,571,653 | 1,191,179 |
| Current debts | | |
| Account payable | 98,774 | 92,758 |
| Bill payable | 309,100 | 0 |
| Account payable for establishing contract with clients | 4,466 | 20,499 |
| Account paid for associated company | 7,176 | 4,000 |
| Account paid for related company | | 13,865 |
| Other account payable and drawing expense in advance | 366,875 | 71,008 |
| Tax payable | 6,628 | 28,676 |
| Long-term debts within one year | 119,135 | 0 |
| Bank loan – without mortgage | 1,551,148 | 1,252,734 |
| | 2,463,303 | 1,483,540 |
| Net amount of current debts | -891,650 | -292,361 |
| Total assets subtracted current debts | 2,197,246 | 2,239,693 |
| Capital resources: | | |
| Share capital | 547,966 | 547,966 |
| Reserve | 714,996 | 652,207 |
| Remained surplus | | |
| Planned to dispatch share interests at the period-end | | 273,983 |
| Others | 217,858 | 233,980 |

| | | |
|---|---|---|
| Shareholders' equity | 1,480,820 | 1,708,136 |
| Minority interests | 157,887 | 102,033 |
| Bank loan without mortgage | 558,538 | 429,524 |
| | 2,197,246 | 2,239,693 |

## Brief Consolidated Cash Flow Statement

| | **Nine Months ended 30 September** | |
|---|---|---|
| | **2005** | **2004** |
| | **RMB'000** | **RMB'000** |
| Net amount of inflow/outflow of cash arising from operating activities | 20,029 | 204,061 |
| Net cash outflow from investment activities | -580,163 | -473,241 |
| Net cash inflow from financing | 346,103 | 315,313 |
| Increase/decrease of cash and cash equivalents | -214,031 | 46,133 |
| Cash and cash equivalents at period beginning | 581,651 | 494,178 |
| Cash and cash equivalents at period-end | 367,619 | 540,311 |