

SHENZHEN NANSHAN POWER STATION CO., LTD.

SUMMARY OF ANNUAL REPORT 2005

§1. Important Notes

1.1 The Board of Directors, Supervisory Committee of Shenzhen Nanshan Power Station Co., Ltd. (hereinafter referred to as the Company) and its directors, supervisors and senior executives 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.

1.2 No director, supervisor and senior executive stated that they couldn't ensure the correctness, accuracy and completeness of the contents of Annual Report 2005 or have objection for this report.

1.3 Name of absent director

Name	Reason of absence	Name of entrustee
Mr. He Yingyi	Due to business	Mr. Sun Yulin

1.4 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.

1.5 Chairman of the Board Wei Wende, General Manager Fu Bo, CFO Lu Xiaoping and Head of Financial Dept. Chen Xueshun hereby confirm that the Financial Report enclosed in the Annual Report is authentic and complete.

§2. Company Profile

2.1 Basic information

Short form of the stock	G Nan Dian, Shen Nan Dian B
Stock code	000037, 200037
Listed stock exchange	Shenzhen Stock Exchange
Registered address and Office address	No.18, Yueliangwan Avenue, Nanshan District, Shenzhen 16/F-17/F, Hantang Building, OCT, Nanshan District, Shenzhen, Guangdong

Post code	Post code of registered address: 518052 Post code of office address: 518053
Internet web site of the Company	http://www.nsr.com.cn
E-mail	public@nspower.com.cn

2.2 Contact person and method

	Secretary of the Board	Securities Affairs Representative
Name	Hu Qin	Hu Qin
Contact address	16/F-17/F, Hantang Building, OCT, Nanshan District, Shenzhen, Guangdong	16/F-17/F, Hantang Building, OCT, Nanshan District, Shenzhen, Guangdong
Telephone	0755-26003683	0755-26003683
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E-mail	investor@nspower.com.cn	investor@nspower.com.cn

§3. Summary of Accounting Data and Financial Indexes

3.1 Major accounting data

Unit: RMB'000

Item	2005 (this year)	2004 (last year)	Increase or decrease over last year (%)	2003
Turnover	3,030,682	2,432,712	24.58	1,863,937
Other income	155,456	111,839	39.00	94,556
Excluding profit before tax	22,399	487,551	-95.41	546,587
Profit attributable to shareholders	29,919	444,582	-93.27	475,995
	At the end of 2005(this year-end)	At the end of 2004(this year-end)	Increase or decrease over the end of last year (%)	At the end of 2003
Shareholders' equity	1,507,407	1,708,136	-11.75	1,519,821
Net cash inflow from operation activity	615,701	466,491	31.99	369,313

3.2 Difference of net profit audited by Chinese Accounting Standard (CAS) and International Accounting Standard (IAS)

☐ Applicable ☒ Inapplicable

§4 Changes in Share Capital and Particulars about Shareholders

4.1 Statement of change in share capital

Unit: Share

	Before the change		Increase/Decrease in this time		After the change	
	Amount	Proportion	Other	Subtotal	Amount	Proportion
I Unlisted shares	374,553,935	68.35%	-47,553,343	-47,553,343	327,000,592	59.68%
i Promoters' shares	312,853,274	57.09%	-40,951,361	-40,951,361	271,901,913	49.62%
Including: State-owned shares	85,538,864	15.61%	0	0	85,538,864	15.61%
Domestic legal person's shares	113,783,159	20.76%	0	0	113,783,159	20.76%
Foreign legal person's shares	113,531,251	20.72%	-40,951,361	-40,951,361	72,579,890	13.26%
Others	0	0.00%	0	0	0	0.00%
ii Raised legal person's shares	61,700,661	11.26%	-6,601,982	-6,601,982	55,098,679	10.06%
iii Inner employees' shares	0	0.00%	0	0	0	0.00%
iv Preference shares or others	0	0.00%	0	0	0	0.00%
II Listed shares	173,412,063	31.65%	47,553,343	47,553,343	220,965,406	40.32%
i Ordinary RMB shares	64,846,135	11.83%	0	0	64,846,135	11.83%
ii Domestically listed foreign shares	108,565,928	19.81%	47,553,343	47,553,343	156,119,271	28.49%
iii Overseas listed foreign shares	0	0.00%	0	0	0	0.00%
iv Others	0	0.00%	0	0	0	0.00%
III Total shares	547,965,998	100.00%	0	0	547,965,998	100.00%

4.2 Statement of shares held by the top ten shareholders and the top ten shareholders of circulation share

Unit: Share

Total shareholders at the end of report	28,209				
Particulars about the top ten shareholders holding shares					
Full name of shareholders	Nature of shareholder	Proportion	Total amount of shares held	Number of non-circulating shares held	Number of share pledged or frozen
SHENZHEN GUANGJU ELECTRONIC INVESTMENT CO., LTD.	State-owned shareholder	22.97%	125,845,702	125,845,702	0
HONG KONG NAM HOI (INTERNATIONAL) LIMITED	Foreign capital shareholder	15.28%	83,748,408	83,748,408	0
SHENZHEN ENERGY GROUP CO., LTD.	State-owned shareholder	11.44%	62,697,297	62,697,297	0
SHENZHEN STATE POWER SCIENCE AND TECHNOLOGY DEVELOPMENT CO., LTD.	State-owned shareholder	9.98%	54,709,180	54,709,180	0
BNP P P/PANDA INVESTMENT COMPANY LIMITED	Foreign capital shareholder	8.68%	47,553,343		Unknown
MORGAN STANLEY INT’L (CHINA)-FIRM	Foreign capital shareholder	4.08%	22,366,183		Unknown
ZHONGSHAN GAOLING INVESTMENT CO., LTD	Other	2.02%	11,040,088		Unknown

CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI 5496	Foreign capital shareholder	0.64%	3,522,769		Unknown
SKANDIA GLOBAL FUNDS PLC	Foreign capital shareholder	0.62%	3,410,000		Unknown
TOYO SECURITIES ASIA LIMITED-A/C CLIENT.	Foreign capital shareholder	0.62%	3,394,282		Unknown

Particulars about the shares held by the top ten shareholders of circulating share:		
Name of shareholders	Number of circulating shares held	Type of shares
BNP P P/PANDA INVESTMENT COMPANY LIMITED	47,553,343	Domestically listed foreign shares
MORGAN STANLEY INT'L (CHINA)-FIRM	22,366,183	Domestically listed foreign shares
ZHONGSHAN GAOLING INVESTMENT CO., LTD	11,040,088	RMB Common share
CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI 5496	3,522,769	Domestically listed foreign shares
SKANDIA GLOBAL FUNDS PLC	3,410,000	Domestically listed foreign shares
TOYO SECURITIES ASIA LIMITED-A/C CLIENT.	3,394,282	Domestically listed foreign shares
NAITO SECURITIES CO., LTD.	3,194,124	Domestically listed foreign shares
CHINAFAMOUSBRAND SECURITIES HOLIDING CO.,LTD	2,259,559	Domestically listed foreign shares
DEUTSCHE BANK AG LONDON	2,130,432	Domestically listed foreign shares
GUOTAI JUNAN SECURIES HONG KONG LIMITED	1,511,500	Domestically listed foreign shares
Explanation on associated relationship among the top ten shareholders or consistent action	(1) Shenzhen Energy Group Co., Ltd., the Company's No. 3 shareholder indirectly holds 100% equity of Hong Kong Nam Hoi (International) Limited, the Company's No. 2 shareholder. (2) The Company was unknown whether there exists associated relationship or consistent action among the other shareholders.	

4.3 Particulars about the controlling shareholders and actual controller of the Company

4.3.1 Particulars about change in the controlling shareholders and actual controller of the Company

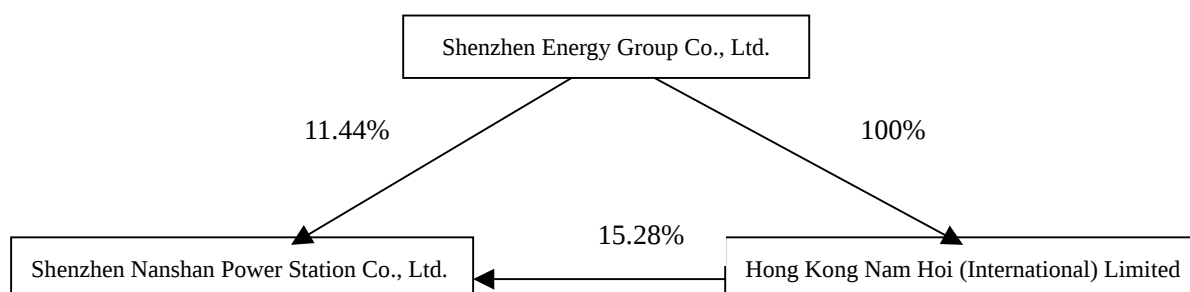
☐ Applicable ☒ Inapplicable

4.3.2 Introduction of especial situation for the controlling shareholder and other actual controller

The Company has no holding shareholder. Shenzhen Energy Group Co., Ltd. is the actual largest shareholder of the Company, its legal representative is Gao Zimin; date of foundation: July 15, 1985, registered capital: RMB 955,555,556; enterprise type: company with limited liability; business scope: development, production and purchase and sale of conventionality energy (including electricity, heat, coal, oil and gas) and

new energy; design, construction, management and operation of various energy project; facility and its fittings, equipments, aluminum, timber and cement and other raw materials demanded by energy project; operation of import and export business (transacted according to SMGSZ Zi No. 147 document); operating personnel training, consultation prepared for energy projects and other relevant service business (specific projects subject to approval by the authority); technology development, transfer and service of environments protection; investing and operating transportation business (highway, littoral and oceanic) of fuel, raw material and equipment demanded by energy projects, management of property (operated by property management qualification certificate), lease of owned property.

4.3.3 Property right and controlling relationship between the actual controller of the Company and the Company is as follows:



§5. Particulars about Directors, Supervisors and Senior Executives

5.1 Particulars about changes in shares held by directors, supervisors and senior executives

Name	Title	Sex	Age	Term office	Shares held at the year-begin	Share held at the year-end	Reason of change	Total remuneration drew from the Company in the report period (RMB'0000)	Draw the remuneration from other shareholder units or associates or not
Wei Wende	Chairman of the Board	Male	58	Jan. 19,2005 till now	0	0		0.00	Yes
Wang Jianbin	Vice Chairman of the Board	Male	42	Jun. 17,2003 till now	0	0		0.00	Yes
Sun Yulin	Vice Chairman of the Board & Director	Male	54	July 21,2005 till now June 17,2003 -July 21,2005	0	0		0.00	Yes
Fu Bo	DirectorGM &Deputy GM	Male	43	Jan.19,2005 till now Aug. 17,2003- Jan. 19,2005	0	0		64.09	No

Yu Chunling	Director	Female	40	June 17,2003 till now	0	0		0.00	Yes
Li Li	Director	Male	62	June 17,2003 till now	0	0		0.00	Yes
Zhao Xiao	Director	Male	60	June 17,2003 till now	0	0		0.00	Yes
Zhong Chengli	Director	Male	58	June 17,2003 till now	0	0		0.00	Yes
He Yingyi	Director& Supervisor	Male	49	Aug. 29,2005 till now June 17,2003- Aug. 29,2005	0	0		0.00	Yes
Huang Sujian	Independent Director	Male	50	June 17,2003 till now	0	0		6.67	No
Liu Zhanjun	Independent Director	Male	47	June 17,2003 till now	0	0		6.67	No
Zhou Chengxin	Independent Director	Male	50	June 17,2003 till now	0	0		6.67	No
Xu Jing'an	Independent Director	Male	64	Sep. 3,2004 till now	0	0		6.67	No
Yu Xiufeng	Independent Director	Male	41	Nov. 29,2004 till now	0	0		6.67	No
Zhu Tianfa	Chairman of the Supervisory Committee	Male	56	June 17,2003 till now	0	0		0.00	Yes
Ji Ming	Supervisor	Male	49	June 17,2003 till now	0	0		0.00	Yes
Zhou Qun	Supervisor	Male	41	June 17,2003 till now	0	0		0.00	Yes
Li Yongsheng	Supervisor	Male	33	June 17,2003 till now	0	0		0.00	Yes
Sun Peng	Supervisor	Male	32	Aug.29,2005 till now	0	0		0.00	Yes
Wang Rendong	Employee Supervisor	Male	44	June 17,2003 till now	0	0		56.08	No
Xu Shichun	Employee Supervisor	Male	54	June 17,2003 till now	0	0		44.05	No
Zhu Wei	Deputy GM	Male	48	Aug.17,2003 till now	0	0		59.87	No
Lin Qing	Deputy GM	Female	41	Oct. 17,2003 till now	0	0		59.53	No
Lu Xiaoping	CFO	Male	43	Aug.17,2003 till now	0	0		59.51	No
Sun Shoulin	General Engineer	Male	59	Aug. 17,2003 till now	16,301	16,301		59.84	No
Total	-	-	-	-	16,301	16,301	-	436.32	-

§ 6. Report of the Board of Directors

6.1 Discussion and analysis to the whole operation in the report period

6.1.1 Review to the overall operation status in the report period

6.1.1.1 The overall operation status

The operation scope of the Company is electricity and heat supply for production and operation. The Company engages in related technology consultancy and technology service of power plant. The main operations are electricity supply using gas-steam combined circulation power generating units. Presently, the Company are building and operating gas power plant and electricity project in Shenzhen, Zhongshan, Dongguan and other areas, which are the power loading center in Zhujiang Delta. In addition, it supply power for the users through the power plants in these areas.

After the fast development and high speed expansion in recent several years, the management achievements of the Company promoted rapidly. In considering that, the Company decided Year of 2005 as the Standard Management Year; on the basis of strengthening the safety production on electricity continually, the Company strengthened the internal standard management, solidified the foundation and accumulated strengthen for further development.

In 2005, lacks in electric power and electric quantity emerged in the power supply of Guangdong Province, the intense situation was the most serious year in the recent ten years; especially, in the 1st quarter, the capability of large-scale thermal power generating units reduced due to the period of overhauling in part thermal power generation units of Guangdong. Additionally, the electric power in Guangdong reduced due to the dropping of the loading on transporting the electricity from West to East in dry season. With the drawn of economical fast development, the demand of electricity in Shenzhen kept high speed of growth, similarly emerged the situations of lacks in electric power and electric quantity. The actual electricity supply of the whole year in Shenzhen amounted to 42.2 billion kilowatt-hours with the growth ratio of 13.4% of the same period in last year; of which the power generation to the network of regional plant of fuel oil amounted to 13.2 billion kilowatt-hours with the growth ration of 13% of the same period of last year. The peak load in electricity uses of Shenzhen amounted to 7.473 million kilowatt-hours in the conditions of avoiding the peak period of using electricity with the growth ratio of 9.1% of the same period in last year. The extensive demand in electricity created the advantaged for striving for more electricity for the enterprises.

However, along with the unceasing rising on international price of fuel oil and the national cleaning on the projects on electric constructions, the whole operation of the Company changed a lot. The average oil fare on heavy oil was RMB 2,538.27 Yuan/ton with the growth of 706.06 Yuan/ton upgrading 38.54%; the average oil fare on light oil was RMB 3,701.88 Yuan/ton with the growth of 587.72 Yuan/ton upgrading 18.87%. The oil fare of the whole year increased RMB 547,947,500 over the same period of last year. The emphases in the whole-year operation of the Company were how to keep management security and realize benefit growth in the changes of exterior management environment. In considering that, with the vigorous support of the shareholders units, the Board of Directors of the Company adjusted promptly annual generating plan and established the corresponding operation strategy of the subordinate electricity enterprises. All the staff took measures with one heart

revolving with the work objective and the policy closely, promoted production, management, fine management, carried out the measures on tapping latent potentialities and reducing consumes, broadening sources of income and reduce expenditures, strived positively for government subsidy, reduced the negative influences brought by the rising in oil price through our unremitting endeavor and over-fulfilled the annual production task.

In the report period, the accumulative amount of power generation of the Company was 514,508.09 kilowatt-hours with growth of 37.52% over the same period of last year and completed 105.00% of the whole year planning (the amount of power generation after adjustment); and renovated the historical new record of the annual power generation. Ended as Dec. 31, 2005, the total assets of the Company were RMB 426,368.90 ten thousand with growth of 13.51% over the year-begin; however, due to the larger dropping in the 2005 annual net profits, the net assets of the Company were RMB 150,740.70 ten thousand with reduction of 11.75% over the year-begin. During 2005, the sales the Company realized RMB 303,068.20 ten thousand with growth of 24.58% over the same period of last year. Influenced by the controlling factors such as the rising on the price of international fuel oil and adopting the temporary electrovalence by Zhongshan Nanlang Power Plant. The net equity profit the Company realized were RMB 2,991.90 ten thousand.

In the report period, influenced by the factors such as the rising in oil price and adopting the temporary electrovalence by new-built power plant, the Board of Directors of the Company declined to 5.75 million degree from the planned 6.24 billion degree in the year-begin; additionally, other operation plans would be implemented in the report period.

6.1.1.2 Main suppliers and customers

The core business of the Company is the production of electric power. The main raw materials for generating plant are fuel oil and spare parts of the equipment service, etc. The purchasing company for main raw materials adopted the method of international bidding, and established the strategic supplier system by accumulating ten years work experiences on commodity purchase. In 2005, the purchasing amount of top five suppliers amounted to RMB 209,827.94 ten thousand, taking 98.77% of annual purchasing amount. The total amount in sales of electric power in Shenzhen of the Company amounted to RMB 258,222.06 ten thousand, 100% sold to Shenzhen Power Supply Company; the total amount in sales of electric power in Zhongshan of the Company amounted to RMB 40,986.14 ten thousand, 100% sold to Guangdong Power Grid Corporation.

6.1.1.3 Operations and achievements of main controlling shareholders' companies and participating companies

1) Xindianli Company: The main business scopes are technological development and power generation of afterheat utilization with its registration capital of RMB 11,385 ten thousand, of which the Company hold 100% shares. Besides the normal power generation, the project on thermoelectricity cogeneration the company invested in July, 2005 began to supply gas to its peripheral users and the whole quantity was amounting to 170,000 tons. Ended as December 31, 2005, the total assets amounted to

RMB 101,588.79 ten thousand with an increase of 19.19% over the year-begin; the net assets amounted to RMB 34,969.97 ten thousand with a decrease of 27.08% over the year-begin; the income from main operation the company realized amounted to RMB 88,803.29 ten thousand with an increase of 22.49% over the last period; the total net profit amounted to RMB18, 776.89 ten thousand with a decrease of 33.47% over the same period of last year; the net profit amounted to RMB 18,589.57 ten thousand with a decrease of 28.85% over the same period of last year.

2) Shennandian (Zhongshan) Company: The main business scopes are power generation of combustion engine and afterheat, power supply and heating supply (excluded the heating pipe networks) with its registration capital of RMB 39, 680 ten thousand, of which the Company holds 80% shares. The two sets fuel gas(with the installed capacity of 2×18 ten thousand kilowatts)the company invested, namely steam combined cycle generating set, was normally put into commercial operation on January 1, 2005. Ended as December 31, 2005, the total assets amounted to RMB 138,489.72 ten thousand with an increase of 10.13% over the year-begin; the net asset amounted to RMB 19,846.28 ten thousand with an increase of 4.76% over the year-begin. In 2005, the quantity of power generation amounted to 107,657.156 ten thousand KWH; the income from main operation amounted to RMB 40,986.14 ten thousand. Because the electrovalence to the network did not get approval from the relevant national department, temporary electrovalence was adopted; therefore, the whole year accumulated RMB 152 million investment losses were brought to the company under the conditions of high price of oil.

3) Shennandian Engineering Company: The main business scopes are technological advisory service on construction project of gas-steam combined cycle power plant (station), accepting the maintenance and repair on the running equipment of gas-steam combined cycle power plant (station) with its capitalization of RMB 1,000 ten thousand, of which the Company holds 60% shares. In the report period, the company successively completed the projects on general contractor of building construction and technological service of nine 9E fuel combined cycle generating sets of Dongguan Tongming Power Plant, Dongcheng Dongxing Power Plant, Dongguan Gaobu Power Plant, Foshan Power, Jinhua Power Plant and Fuhuade Power Plant; carried on the debugging, guaranteed transportation and technical guidance of installation of Inner Mongolia Sulige Power Plant. Ended as December 31, 2005, the total assets amounted to RMB 12,949.54 ten thousand with an increase of 21.19% over the year-begin; the net assets amounted to RMB 9,825.34 ten thousand with an increase of 101.65% over the year-begin. In 2005, the income from main operation amounted to RMB 8,749.50 ten thousand with an increase of 47.80% over the same period of last year; the total profits amounted to RMB 4,952.98 ten thousand with an increase of 27.95% over the same period of last year; the net profits amounted to RMB 4,952.98 ten thousand with an increase of 27.95% over the same period of last year.

4) Xiefu Company: The main business scopes are the purchase and sales of the diesel oil, the heavy oil, the lubricating oil with its registration capital of RMB 5,330 ten thousand, of which the Company holds 50% shares. Ended as December 31, 2005, the

total assets amounted to RMB 17,436.73 ten thousand with a decrease of 26.61% over the year-begin; the net asset amounted to RMB 8,259.18 ten thousand with an increase of 35.03% over the year-begin. In 2005, the income from main operation amounted to RMB 40,898.76 ten thousand with an increase of 8.33% over the same period of last year; the total profit amounted to RMB 2,515.62 ten thousand with a decrease of 5.90% over the same period of last year; the net profit amounted to RMB 2,142.51 ten thousand with a decrease of 5.11% over the same period of last year.

6.1.2 Prospect for the Operation of 2006

According to the predict of the relevant department, 2006 Guangdong economy will keep high speed and stable development on the basis of increasing ratio of 12% of last year. The demand of using electricity of the whole province will amount to 0.2996 billion KWH with an increase of 12% over the same period of last year, and the peak load of using electricity will amount to 4,950 ten thousand KWH with an increase of 12.1% over the same period of last year. Continually faced with lack of electricity, especially in the 1st to 3rd quarter, the electric power of “transfer the electric power from the West to East” reduced due to the dry season; the power supply for the whole province will be more intense. Although the situation between the supply and demand of electricity can obtain certain alleviation in the 4th quarter, Shenzhen will meet lacks of electricity the whole year. At the same time, we could see that the national policy on electric power will be adjusted due to the climbing of international oil price. In 2006, the national 11th five year plan will be started up, policy guidance of strengthening saves and efficient utilization will be proposed in view of the energy industry, energy supply system will be constructed with developing the sustainable circulation economy as the basic goal. Meanwhile, along with the thorough implementation of national electrovalence reform, transferring electric power from the West to East, supporting large generating sets but closed down small one, and the sustainable high price of international fuel oil, the situation of industry will be sterner day by day and market competition will be keener in 2006.

Therefore, in order to meet the challenges and hold opportunities in a new year, after analysis to the internal and external environments of the Company, the general operation plan in 2006 will be: Persist in policy of “standardization, transparency, responsibility, effects and union”, perfect the internal administrative structure and regulations, creatively develop various works, actively explore new sources of profits, steadily promote the development of the Company and seek for maximum economic efficiency for the shareholders.

- 1) To create conditions for strengthening capital operation by completing the share merger reform of the Company; and on that basis, establish the equity driven mechanism of directors, supervisors, senior executives, core management and technical backbones.
- 2) To complete the changing elections about the board of directors, supervisory committee, and management group; guarantee the steady transition of decision-making and management of the Company.
- 3) To carry out the works on examinations to Zhongshan and Dongguan projects to guarantee the completion on examinational tasks of this year; fully utilize the relevant

policy on direct supply for large customers to strive for realizing the normal operations of Shennandian(Zhongshan) Company and Shennandian(Dongguan) Company; continually strengthen the contact and communications between the provincial, municipal department and China Southern Power Grid Co., Ltd, positively impel the appearing and implementation of linkage policy of oil and electricity. At the same time, to strive for electrovalence subsidy income to the maximum degree to make up the losses brought by high oil price.

4) To generalize the purchase of fuel of management system and large commodity, perfect the bidding controlling system, renew and transform purchasing pattern, develop new supply channel, optimize the work flow, strengthen the management of inventory materials, and reduce the production cost greatly.

5) To seek widely and demonstrate the substitutable clean fuel resources such as liquefied natural gas, ask for help of government and society, complete the project on transferring oil to gas of Nanshan Power Plant, realize early the fuel reforming of subordinate power plants to clear the cost and environment protection pressure and seek for the sustainable development of the Company.

6) To strive for building new 9E set of thermoelectricity cogeneration in Nanshan Power Plant on the basis of economical operation of the set of thermoelectricity cogeneration of Xindianli Company, fully exhibit the advantages of linkage of electrovalence and gas oil to improve the reliability and security of heat supply.

7) To impel positively the strategic cooperation on Zhongshan Power project between China National Offshore Oil Corporation and Zhongshan municipal government, solve the fuel problem of Shennandian(Zhongshan) Company early, deal with the matters of share equity of Zhongfa Power Co., Ltd, consolidate and impel the development in the Zhongshan power market of the Company.

8) To strengthen the financing raising and management of fund to guarantee the fund security; explore actively capital financing market and other solutions to solve the difficulty of fund; enlarge the works of drawback of purchasing national equipments.

9) To advance continually the management reforms to make the Company get a higher level on production management, financial management, human resource management, logistic management, subordinate enterprise management as well as the enterprise culture. On that basis, perfect the internal system, and improve the level of standardization management.

6.1.3 The fund demand and resolution plan 2006 of the Company

In order to complete the business goal of 2006, the Company (including the subordinate controlling subsidiaries) predicts the fund demand of 2006 will amount to RMB 3.45 billion. The Company will fully meet the fund demand by various methods, such as its own fund and bank loans, etc.

6.2 Statement of main operations classified according to industries or products

Unit: RMB'0000

Main operations classified according to industries						
Classified according to industries or products	Income from main operations	Cost of main operations	Gross profit ratio (%)	Increase/decrease in income from main operations over the last year (%)	Increase/decrease in cost of main operations over the last year (%)	Increase/decrease in gross profit ratio over the last year (%)
Production and supply of power, steam and hot water	285,208.13	291,539.03	-2.22%	28.59	66.15	-23.11
Contract of projects	17,860.07	11,691.24	34.54%	-16.81	-34.28	17.39
Main operations classified according to products						

6.3 Particulars about main operations classified according to areas

Unit: RMB'0000

Areas	Income from main operations	Increase/decrease in income from main operations over the last year (%)
Shenzhen	262,082.06	7.73
Zhongshan	40,986.14	-

6.4 Application of the raised proceeds

☐ Applicable ☒ Inapplicable

Particulars about the changed projects

☐ Applicable ☒ Inapplicable

6.5 Application of the proceeds not raised through shares offering

☒ Applicable ☐ Inapplicable

Unit: RMB'0000

Name of projects	Amount	Proceeding of Project	Profit from the project
Project of Dongguang Gaobu Power Plant	106,700.00	It is the two fuel-steam combined cycle generating sets (installed capacity 2×18 ten thousand kilowatts) invested by Shennandian (Dongguan) Company(the main business scope is the preparation for the construction and operation of natural gas power plant with its registration capital of USD 3,504 ten thousand, of which the Company holds 55%), the original plans to put into production in late September, late October of 2005, normally put into commercial operation in the evening as of March 13, 2006 due to the delays of equipment arrival. The planned total investment amounted to RMB 1.067 billion, in the report period, the completed accumulation amounted to RMB 0.826 billion.	It is still on the progress in the report period.

Project of Combined Heat and Power Generation	5700.00	The project was invested by Xindianli Company and normally put into production on June 30, 2005, and got approval from Combined Heat and Power Generation Set of Guangdong Economic Trade Committee.	In 2005, the gas supply of the project was amounting to 170,000 tons; income amounted to RMB 36.4338 million and business profit amounted to RMB 3.7235 million.
Project of transforming oil to gas	7,400.00	The project of Nanshan Power Plant (including Xindianli Company) was approved in the 17 th meeting of the 4 th Board of Directors of the Company, and normally constructed on Jan. 15, 2006. The Company plans to complete the engineering construction of natural gas pipeline air-supply system and transformation of the subordinate combustion engine of Nanshan Power Plant (including Xindianli Company) to make it have the generating ability by natural gas. The total investment of the project amounted to RMB 7,000 ten thousand and plan to finish in September, 2006.	It is still on the progress in the report period.
Total	119,800.00	-	-

6.6 Explanation of the Board of Directors on the “Qualified Opinion” made by the CPAs

☐ Applicable ☒ Inapplicable

6.7 The preplan of profit distribution and capitalization of capital public reserve of the Board of Directors

☒ Applicable ☐ Inapplicable

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 2005 was RMB 53,488,124.80(with the same currency in the followings). According to relevant provisions of the Articles of Association, withdrawal of 10% statutory public reserve amounted to RMB 5,348,812.48, withdrawal of 5% public welfare fund amounted to RMB 2,674,406.24. In 2005, the profit available for distribution of parent company to the shareholders amounted to RMB 396,372,671.96, the profit available for distribution to the shareholders after consolidation was RMB 223,534,277.84.

Audited by PricewaterhouseCoopers Certified Public Accountants, the profit available for distribution to the shareholders based on the calculation according to Hong Kong Accounting Standards was RMB 223,534,000.

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 2005, namely RMB 223,534,277.84.

According to relevant provisions and Articles of Associations, the preplan on profit distribution in 2005 is:

In the report period, it did not conduct profit distribution and convert capital public reserve into share capital. In light of that the international oil price remained high, thus resulted in cost of generating electricity ascended; the undistributed profits in 2005 will be used to supplement the current fund for routine operations of the Company.

The preplan on the profit that has not been appropriated for cash profit distribution

✓ Applicable

☐ Inapplicable

Reason for the preplan on the profit that has not been appropriated for cash profit distribution	Purpose and using plan of the undistributed profit of the Company
In light of that the international oil price remained high, thus resulted in cost of generating electricity ascended; the undistributed profits in 2005 will be used to supplement the current fund for routine operations of the Company.	In light of that the international oil price remained high, thus resulted in cost of generating electricity ascended; the undistributed profits in 2005 will be used to supplement the current fund for routine operations of the Company.

§7 Significant Events

7.1 Purchase of assets

☐ Applicable

✓ Inapplicable

7.2 Sales of assets

☐ Applicable

✓ Inapplicable

7.3 Significant guarantees

✓ Applicable

☐ Inapplicable

Unit: RMB'0000

Unit: RMB 0000

Particulars about the external guarantee of the Company (Barring the guarantee for the controlling subsidiaries)						
Name of the Company guaranteed	Date of happening (date of signing agreement)	Amount of guarantee	Guarantee type	Guarantee term	Complete Implementation or not	Guarantee for related party (yes or not)
Total amount of guarantee in the report period				0.00		
Total balance of guarantee at the end of the report period				0.00		
Guarantee of the Company for the controlling subsidiaries						
Total amount of guarantee for controlling subsidiaries in the report period				39,000.00		
Total balance of guarantee for controlling subsidiaries at the end of the report period				23,000.00		
Particulars about the external guarantee of the Company (Including the guarantee for the controlling subsidiaries)						
Total amount of guarantee				23,000.00		
The proportion of the total amount of guarantee in the net assets of the Company				15.08%		
Including:						

Amount of guarantee for shareholders, actual controller and its related parties	0.00
The debts guarantee amount provided for the guarantee of which the assets-liability ratio exceeded 70% directly or indirectly	23,000.00
Proportion of total amount of guarantee in net assets of the Company exceeded 50%	0.00
Total amount of the aforesaid three guarantees	23,000.00

7.4 Significant related transaction

7.4.1 Related transaction connected to operations

☐ Applicable ☒ Inapplicable

7.4.2 Related credits and liabilities current

☐ Applicable ☒ Inapplicable

Use of funds and plan on paying off the debt

☐ Applicable ☒ Inapplicable

The plan could be settled down use of funds before the end of 2006 totally or not

☐ Yes ☐ No ☒ Inapplicable

7.5 Entrusted assets management

☐ Applicable ☒ Inapplicable

7.6 Implementation of commitments

7.6.1 Commitment on Share Merger Reform

1. The Content of the commitment

After the recommendation of BOC International (China) Limited, the Company published the Instruction to Share Merger Reform of Shenzhen Nanshan Power Station Co., Ltd on Jan. 23, 2006, and published Revision of Instruction to Share Merger Reform of Shenzhen Nanshan Power Station Co., Ltd on Feb. 10, 2006. The plan was examined and approved Shareholders' General Meeting on Share merger reform on Feb. 27, 2006; and implemented on Mar. 28, 2006 with the approval of Ministry of Commerce, PRC.

The non-circulating shareholders about A-share of the Company made commitments on Revision of Instruction to Share Merger Reform of Shenzhen Nanshan Power Station Co., Ltd:

1) Since the implementation of reform plan, no listed transaction or transfer within 12 months;

2) After the stipulated expiration of the 1st item, the original non-circulating shareholders who held 5% of the total shares of the Company sold the original non-circulating shares through the listed transaction of Shenzhen Stock Exchange. The sales amount accounting for the total shares of the Company will not surpass 5% within 12 months, and not surpass 10% within 24 months.

2. Implementation of commitments

It is implemented strictly according to the commitment.

3. Commitment violation

☐ Applicable ✓ Inapplicable

7.6.2 Other Commitments

☐ Applicable ✓ Inapplicable

7.7 Significant lawsuit and arbitrations

☐ Applicable ✓ Inapplicable

§8. Report of the Supervisory Committee

✓ Applicable ☐ Inapplicable

(I) Work of the Supervisory Committee

According to relevant regulations of Company Law and the Articles of the Association, the Supervisory Committee seriously fulfilled its duties. In the report period, the Supervisory Committee held 5 meetings and one extraordinary meeting, and attended all meetings of the Board with the details as follows:

1. On March 5, 2005, the 12th meeting of the 4th Supervisory Committee was held. The relevant resolution was published on Securities Times, China Securities and Ta Kung Pao dated March 8, 2005.

2. On Apr.15, 2005, the 13th meeting of the 4th Supervisory Committee was held. The relevant resolution was published on Securities Times, China Securities and Ta Kung Pao dated Apr.19, 2005.

3. On July 21, 2005, the 14th meeting of the 4th Supervisory Committee was held. The relevant resolution was published on Securities Times, China Securities and Ta Kung Pao dated July 26, 2005.

4. On Aug.11, 2005, the 15th meeting of the 4th Supervisory Committee was held. The relevant resolution was published on Securities Times, China Securities and Ta Kung Pao dated Aug. 13, 2005.

5. On Sep. 27, 2005, the extraordinary meeting of the 4th Supervisory Committee was held. 7 supervisors should attend the meeting, and actually 7 supervisors presented. The meeting heard Report on Clearing of Beneficial Fund and its Dealing Affairs, and Report on Payment of 2004 Relevant Charges of Intermediary Organizations.

6. On Oct. 10, 2005, the 16 meeting of the 4th Supervisory Committee was held, 7 supervisors should attend the meeting, and actually 7 supervisors presented. The meeting examined and approved the 3rd Quarterly Financial Settling Report 2005 and 3rd Quarterly Report 2005 and its Summary (Domestic and overseas Version).

(II) Changes on institution and personnel

Due to the work, Mr. He Yingyi did not take the post of supervisor of the 4th Supervisory Committee of the Company; with the recommendation of Shenzhen

State Power Science& Technology Development Co.,Ltd, Mr. Sun Peng was supplementary voted supervisor of the 4th Supervisory Committee which was examined and approved on the 14 meeting of the 4th Supervisory Committee and 3rd Extraordinary Shareholders' General Meeting 2005.

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

1. The Company's operation according to laws

In the report period, the Supervisory Committee attended all meetings of the Board of Directors and seriously supervised on all decisions and implementations of resolutions made by Shareholders' General Meeting, and executed duties of supervisors. The Supervisory Committee considered, the Company could develop all productive and operative business according to the State and local laws and regulations and the Articles of Association. The Company step by step established and consummated legal person administration structure. The decision-making procedures of the Company need further standardizing. Directors and managers of the Company still abided by regulations of relevant laws, regulations and the Articles of the Association of the Company in executing the duties of the Company; and abided by regulations of relevant laws, regulations, provisional regulations on the disclosure management of the Company, and the rules of procedure of the shareholders' general meeting in performing the obligations of 2005 information disclosure. The Supervisory Committee requires that on the basis of guaranty of legal operation, regulated operation and safe production; continue to persist in regulated operation and budget management, further perfect and consummate legal administration structure and regulations, and maintain the good image of the listed companies.

2. Inspecting the Company's finance

In 2005, the Supervisory Committee seriously checked auditors' report submitted by CPAs engaged by the Company and other accounting materials submitted by the Company. The Supervisory believed, the Company can implement finance and tax policies of the State and ratified financial management. Guangzhou Yangcheng CPAs Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants presented unqualified auditor's report for the Company.

The Supervisory Committee held special meeting on March and September of 2005, and supervised and checked the following problems: Contract of intermediary expenses between the Company and the intermediary organization occurred in 2004, process of clearing and returning the beneficial fund, releasing the guarantee for the risks of subsidiaries and dunning the account receivable. According to the requirements of the Supervisory Committee, the Company should establish the management system of budget in 2005, strengthen the financial supervision of the subordinate companies, and establish systems on financial supervision and risk prevention.

3. Use of raised proceeds

The actual project put in with the latest raised proceeds of the Company accorded with the project committed.

4. Transactions of purchase and sale of assets of the Company

In 2004, the Company transferred three 5B gas wheel power generation sets (#21, #22, #23) of Nanshan Power Plant to Wuhan Iron & Steel Construction Project Group Co., Ltd. The transferred price was RMB 20 million. After various endeavors of the Company, the balance amounting to RMB 9.9 million, which was unpaid during 2004, has been taken back in the report period.

5. Related transactions

The Supervisory Committee believed, according to the annual Auditor's Report presented by Guangzhou Yangcheng CPAs Co., Ltd., in the report period, there existed no behaviors out of line about capital current and transaction between the Company and related parties. The related transactions of the Company occurred also took the principle of market fair transaction into consideration. According to the market price of the same kind of product, the Company determined the transaction price. After the examination and approval of the Board of the Company and Shareholders' General Meeting, the transaction price was fair and reasonable, which didn't do harm to the interest of the Company.

6. Clearing of Beneficial Fund

According to the spirit document on Beneficial Fund for Technical Modification of the Enterprises promulgated by CSRC and Discipline Inspection Committee of Shenzhen CPC, and Decision on Criticism of Board of Director of Shenzhen Nanshan Power Station (SZJFZI [2005] No. 40) promulgated by CSRC, benefit funds amounting to RMB 4,231.84 ten thousand were supposed to be checked and returned. In the report period, the Company actively adopted various measures to implement check and return work of relevant amount. Ended as of April 10, 2006, the Company has called back accumulating to RMB 3231.23 ten thousand, personnel including Chen Zhizhong, Li Hanjia, Li Yongjian, Lu Jingcheng, Lai Weicheng, Sui Ke, Xu Shichun, Zhao Lijin, and Zhao Hubin has not checked and returned completely yet, which accumulated to RMB 1,000.61 ten thousand. Due to the persons who were not check and returned left the Company or cannot be gotten contact, the Company actively took other methods and ways to further tighten check & return, and strive for accomplishing total amount of check & return work within 2006 and implement obligation of sustaining information disclosure in proper time.

§9. Financial Report

9.1 Auditor's opinions

Auditor's opinions: standard unqualified auditor's opinions

9.2 Financial statement

9.2.1 CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	As at 31 December	
	2005	2004
ASSETS		
Non-current assets		
Land use rights	36,888	31,873
Intangible assets	33,360	(19,653)
Property, plant and equipment	2,919,201	2,422,133
Interest in associates	25,400	16,536
Deferred income tax assets	8,936	9,280
Available-for-sale financial assets	53,919	-
Non-trading securities	-	71,885
	<u>3,077,704</u>	<u>2,532,054</u>
Current assets		
Inventories	430,329	249,409
Trade and other receivables	448,131	392,980
Cash and cash equivalents	307,525	581,651
	<u>1,185,985</u>	<u>1,224,040</u>
Total assets	<u>4,263,689</u>	<u>3,756,094</u>
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	547,966	547,966
Other reserves	735,907	652,207
Retained earnings		
Proposed final dividend	-	273,983
Others	223,534	233,980
	<u>1,507,407</u>	<u>1,708,136</u>
Minority interest	172,898	102,033
Total equity	<u>1,680,305</u>	<u>1,810,169</u>
LIABILITIES		
Non-current liabilities		
Borrowings	416,783	429,524
Current liabilities		
Trade and other payables	797,340	214,492
Amount due to customer on construction contract	-	20,499
Current income tax liabilities	10,685	28,676
Borrowings	1,358,576	1,252,734
	<u>2,166,601</u>	<u>1,516,401</u>
Total liabilities	<u>2,583,384</u>	<u>1,945,925</u>
Total equity and liabilities	<u>4,263,689</u>	<u>3,756,094</u>

9.2.2 CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December	
	2005	2004
Sales	3,030,682	2,432,712
Other gains - net	155,456	111,839
	<u>3,186,138</u>	<u>2,544,551</u>
Fuel costs	(2,555,971)	(1,391,848)
Construction costs	(109,404)	(179,809)
Employee benefit expense	(101,981)	(119,611)
Depreciation of property, plant and equipment	(188,969)	(156,578)
Amortisation of land use rights and intangible assets	(12,341)	(9,507)
Operating lease expenses - equipment	(28,538)	(38,204)
Repairs and maintenance expenses	(41,265)	(111,178)
Other operating expenses	<u>(48,505)</u>	<u>(37,505)</u>
Operating profit	99,164	500,311
Finance costs	(87,415)	(26,775)
Share of profit of associates	10,650	13,823
Profit before income tax	22,399	487,359
Income tax expense	<u>(14,943)</u>	<u>(29,085)</u>
Profit for the year	<u>7,456</u>	<u>458,274</u>
Attributable to:		
Equity holders of the Company	29,919	444,582
Minority interest	<u>(22,463)</u>	<u>13,692</u>
	<u>7,456</u>	<u>458,274</u>
Earnings per share for profit attributable to the equity holders of the Company - basic (expressed in RMB per share)	<u>0.05</u>	<u>0.81</u>
Dividends	<u>-</u>	<u>273,983</u>

9.2.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to equity holders of the Company			Minority interest	Total
	Share capital	Other reserves	Retained earnings		
Balance at 1 January 2004 , as previously reported as equity	547,966	521,098	450,757	-	1,519,821
Balance at 1 January 2004 , as previously separately reported as minority interest	-	-	-	19,840	19,840
Balance at 1 January 2004 , as restated	547,966	521,098	450,757	19,840	1,539,661
Dividend relating to 2003	-	-	(256,448)	-	(256,448)
Profit for the year	-	-	444,582	13,692	458,274
Appropriation from retained earnings	-	126,043	(126,043)	-	-
Transfer to capital reserves	-	4,885	(4,885)	-	-
Capital contribution from minority interest	-	-	-	68,501	68,501
Currency translation differences	-	181	-	-	181
Balance at 31 December 2004	547,966	652,207	507,963	102,033	1,810,169
Balance at 1 January 2005 , as per above	547,966	652,207	507,963	102,033	1,810,169
Opening adjustment for adoption of HKAS 39	-	(15,056)	-	-	(15,056)
Opening adjustment for adoption of HKFRS 3	-	-	63,512	-	63,512
Transfer to capital reserve	-	63,512	(63,512)	-	-
Balance at 1 January 2005 , as restated	547,966	700,663	507,963	102,033	1,858,625
Dividend relating to 2004	-	-	(273,983)	-	(273,983)
Profit for the year	-	-	29,919	(22,463)	7,456
Revaluation of available-for-sale financial assets	-	(2,910)	-	-	(2,910)
Appropriation from retained earnings	-	40,365	(40,365)	-	-
Capital contribution from minority interest	-	-	-	93,328	93,328
Currency translation differences	-	(2,211)	-	-	(2,211)
Balance at 31 December 2005	547,966	735,907	223,534	172,898	1,680,305

9.2.4 CONSOLIDATED CASH FLOW STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December	
	2005	2004
Cash flows from operating activities		
Cash generated from operations	648,291	524,837
PRC income tax paid	(32,590)	(58,346)
Net cash generated from operating activities	615,701	466,491
Cash flows from investing activities		
Purchase of property, plant and equipment and payments for land use rights	(665,973)	(1,057,166)
Proceeds from sale of property, plant and equipment	10,264	13,704
Purchase of intangible assets	(3)	(50,035)
Dividend received	1,786	909
Interest received	3,351	3,849
Loan to a related party	(67,680)	-
Loan repayment from a related party	30,460	20,000
Net cash used in investing activities	(687,795)	(1,068,739)
Cash flows from financing activities		
Proceeds from borrowings	2,365,228	1,552,258
Repayment of borrowings	(2,272,127)	(622,329)
Interest paid	(112,267)	(52,442)
Capital contribution from minority interests	93,328	68,501
Dividend paid to Company's shareholders	(273,983)	(256,448)
Net cash (used in)/inflow from financing activities	(199,821)	689,540
Net (decrease)/increase in cash	(271,915)	87,292
Cash at beginning of the year	581,651	494,178
Exchange (loss)/gains on cash	(2,211)	181
Cash at end of the year	307,525	581,651

9.3 Explanation on changes of accounting policy, accounting estimation and settlement compared with the latest annual report

☐ Applicable ☒ Inapplicable

9.4 Contents, correct amount, reason and its influence of significant accounting errors

☐ Applicable ☒ Inapplicable

9.5 Explanation on change of consolidated scope compared with the latest annual report

☐ Applicable ☒ Inapplicable

Board of Directors of
Shenzhen Nanshan Power Station Co., Ltd.
Apr. 11, 2006