SHENZHEN NANSHAN POWER STATION CO., LTD.

Annual Report 2005

(Overseas)

Notice No.: 2006-23

April 11, 2006

Important Notes

The Board of Directors and 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 individually/joint 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.

Director He Yingyi didn't attend the meeting due to outside on business and entrusted Sun Yulin, Vice Chairman of the Board, to exert the voting right on his behalf.

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

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 Annual Report 2005 is authentic and complete.

The Annual Report 2005 was prepared in both Chinese and English. Should there be any difference in interpretation of the two versions, the Chinese version shall prevail.

Contents

I. Company Profile

1. Legal Name in Chinese: 深圳南山热电股份有限公司
   Legal Name in English: SHENZHEN NANSHAN POWER STATION CO., LTD.

2. Legal Representative: Wei Wende
3. Secretary of the Board of Directors: Hu Qin
   Stock & Securities Affairs Representative: Hu Qin
   Tel : (86)755-26003683
   Fax: (86)755-26003684
   E-mail: investor@nspower.com.cn
   Contract Address: 16/F-17/F, Hantang Building, OCT, Nanshan District, Shenzhen, China
4. Registered Address: No.18, Yueliangwan Avenue, Nanshan District, Shenzhen, China
   Post Code: 518052
   Office Address: 16/F-17/F, Hantang Building, OCT, Nanshan District, Shenzhen, China
   Post Code: 518053
   Web site of the Company: http://www.nsrd.com.cn
   E-mail: public@nspower. com.cn
5. Newspapers Designated for Disclosing Information of the Company:
   Securities Times, China Securities and Ta Kung Pao
   【Note】The overseas newpaper for disclosing information engaged by the Company was changed from Ta Kung Pao to Wen Wei Po since April 11,2006.
   Internet Web Site Designated by China Securities Regulatory Commission for Publishing the Annual Report: http: //www.cninfo.com.cn
   Place Where the Annual Report is Prepared and Placed: Secretariat of the Board

6. Stock Exchange Listed with: Shenzhen Stock Exchange
   Short Form of the Stock and Stock Code: G Nan Dian 000037
   Shen Nan Dian B 200037
   【Note】Short form of A stock of the Company changed from Shen Nan Dian A to G Nan Dian dated March 28,2006.
7. Other Relevant Information:
   Initial Registration Date: April 6, 1990
   Initial Registration Place: Nanshan Jiaozui, Nanshan District, Shenzhen
   Registration Place after the Change:
   No.18 Yueliangwan Avenue, Nanshan District, Shenzhen (due to change of the road number)
   Registered number of the corporate business license for enterprise legal person: QGYSZ Zi. No.101591
   Registration Number of Tax.: GTF Zi No.440305930100069（14）
   Names and office addresses of Certified Public Accountants engaged:
   Domestic: Guangzhou Yangcheng Certified Public Accountants & Ltd.

Address: 25/F, Jianlibao Building, No.410, Dongfeng Middle Road, Guangzhou, Guangdong

International: PricewaterhouseCoopers Certified Public Accountants

Address: 23/F, Sunning Plaza, No.10, Hysan Avenue, Tung Lo Wan, Hong Kong

8. Interpretations

The Company: Shenzhen Nanshan Power Station Co., Ltd.

Xiefu Company: Shenzhen Xiefu Oil Supply Co., Ltd., whose 50% shares are held by the Company.

New Power Company: Shenzhen New Power Industrial Co., Ltd. whose 100% shares are held by the Company directly and indirectly.

Xingdesheng Company: the wholly-owned overseas subsidiary, namely HongKong Xingdesheng Co., Ltd..

Engineering Company: Shenzhen Shennandian Gas Engines Engineering Technology Co., Ltd.

Shennandian (Zhongshan) Company: Shennandian (Zhongshan) Electric Power Co., Ltd., which the Company holds its 80% equity.

Shennandian (Dongguan) Company: Shennandian (Dongguan) Weimei Electric Power Co., Ltd.

Tongling Shenneng Company: Anhui Province Tongling Shenneng Power Generation Co., Ltd., which the Company holds its 10% equity.

Energy Envionment Protection Company: Shenzhen Energy Envionment Protection Engineering Co., Ltd., which the Company holds its 10% equity.

Nanshan Power Plant: the secondary company of the Company, namely Nanshan Power Plant of Shenzhen Nanshan Power Station Co., Ltd..

Zhongshan Nanlang Power Plant: Zhongshan Nanlang Power Plant of Shennandian (Zhongshan) Electric Power Co., Ltd.

Dongguan Gaobu Power Plant: Dongguan Gaobu Power Plant of Shennandian (Dongguan) Weimei Electric Power Co., Ltd.

CSRC: China Securities Regulatory Commission.

Shenzhen Securities Regulatory Office: Shenzhen Securities Regulatory Office of CSRC.

Shenzhen Power Supply Bureau: Shenzhen Power Supply Bureau of Guangdong Power Grid Corporation

Designated Newspapers: Securities Times, China Securities and Ta Kung Pao

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

II. Summary of Accounting Highlight and Bussiness Highlight

(I) Major accounting data as of the year 2005

Unit: RMB'000

Items	Amount
Sales income	3,030,682
Operating profit	99,164
Profit before income tax	22,399
Equity attributable to the Company	29,919
Net cash rising from operating activities	615,701
Net increase/decrease of cash	(271,915)

(II) Impact on net profit and net assets after adjustment based on International Accounting Standards

	Net assets (RMB'000) (Ended as of Dec., 31, 2005)	**Net assets (RMB'000) (For the year 2005)**
Calculated as per International Accounting Standards	1,507,407	29,919
Adjustment based on International Accounting Standards:		
Adjustment based on influence of HK Financial Report Standards reevalution of financial assets available for sale	17,966	0
Calculated as per Chinese Accounting Standards	1,525,373	29,919

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

Unit: RMB'000

	Attributable to equity holders of the Company			**Minority interests**	**Total interests**
	Share equity	**Other reserves**	**Retained profit**		
Surplus on Jan., 1, 2005	547,966	652,207	507,963	102,033	1,810,169
Adjustment at period-begin for adopting Accounting Standards 39	-	(15,056)	-	-	(15,056)
Adjustment at period-begin for adopting Financial Standards 3	-	-	63,512	-	63,512
Carrying over capital reserve	-	63,512	(63,512)	-	-
Surplus through re-listing on Jan., 1, 2005	547,966	700,663	507,963	102,033	1,858,625
Stock dividends in 2004	-	-	(273,983)	-	(273,983)
Annual profit	-	-	29,919	(22,463)	7,456
Reevaluation of financial assets available for sale	-	(2,910)	-	-	(2,910)
Distributing from retained profit	-	40,365	(40,365)	-	-

Input assets of minority shareholders	-	-	-	93,328	93,328
Balance of monetary exchange	-	(2,211)	-	-	(2,211)
Surplus on Dec., 31, 2005	547,966	735,907	223,534	172,898	1,680,305

III. Changes in Share Capital & Particulars about Shareholders

(I) Changes in share capital

1. Statement of changes in shares (Ended Dec. 31, 2005)

Unit: Share

Items	Before the Changes	Increase/Decrease in the Change (+、-)						After the Change
		Rationed share	Bonus shares	Capitalization of public reserve	Additional issuing	Others	Subtotal	
I. Unlisted Shares								
1. Sponsor's shares	312,853,274							271,901,913
Including:								
State-owned shares	85,538,864							85,538,864
Including: State shares	30,829,682							30,829,682
State-owned legal person shares	54,709,182							54,709,182
Domestic legal person shares	113,783,159							113,783,159
Foreign legal person shares	113,531,251					-40,951,361	-40,951,361	72,579,890
Others								
2. Raised legal person shares	61,700,661					-6,601,982	-6,601,982	55,098,679
3. Inner employees' shares								
4. Preference shares or others								
Total unlisted shares	374,553,935					-47,553,343	-47,553,343	327,000,592
II. Listed shares								
1. RMB ordinary shares	64,846,135							64,846,135
2. Domestically listed foreign shares	108,565,928					+47,553,343	+47,553,343	156,119,271
3. Foreign listed foreign shares								
4. Others								
Total listed shares	173,412,063					+47,553,343	+47,553,343	220,965,406
III. Total shares	547,965,998							547,965,998

(II) Issuing and listing

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

2. At present, the Company has no inner employees' shares.

(III) About shareholders

1. At the end of the report period, the Company has totally 28,209 shareholders, including 16,657 shareholders of A-shares and 11,552 shareholders of B-shares, respectively increasing 3,972 shares and 1,015 shares comparing with the last year.

2. Shares held by the top ten shareholders (ended Dec. 31, 2005)

Unit: share

Shareholders	Increase/decrese in the report period	Amount at the period-end	Proportion of shares held to share capital (%)	Status of shares	Shares pledged or frozen
SHENZHEN GUANGJU ELECTRONIC INVESTMENT CO., LTD.	0	125,845,702	22.97	Legal person shares	No
HONG KONG NAM HOI (INTERNATIONAL) LIMITED	0	83,748,408	15.28	Foreign legal person shares	No
SHENZHEN ENERGY GROUP CO., LTD.	0	62,697,297	11.44	Legal person shares	No
SHENZHEN STATE POWER SCIENCE AND TECHNOLOGY DEVELOPMENT CO., LTD.	0	54,709,180	9.98	Legal person shares	No
BNP P P/PANDA INVESTMENT COMPANY LIMITED	0	47,553,343	8.68	B shares	Unknown
MORGAN STANLEY INT'L (CHINA)-FIRM	+12,533,475	22,366,183	4.08	B Shares	Unknown
ZHONGSHAN GAOLING INVESTMENT CO., LTD	Unclear	11,040,088	2.02	A Shares	Unknown
CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI 5496	Unclear	3,522,769	0.64	B Shares	Unknown
SKANDIA GLOBAL FUNDS PLC	-1,331,041	3,410,000	0.62	B Shares	Unknown
TOYO SECURITIES ASIA LIMITED-A/C CLIENT.	Unclear	3,394,282	0.62	B Shares	Unknown

Notes:

(1) Shenzhen Energy Group Co., Ltd. holds 30,829,682 shares on behalf of the State.

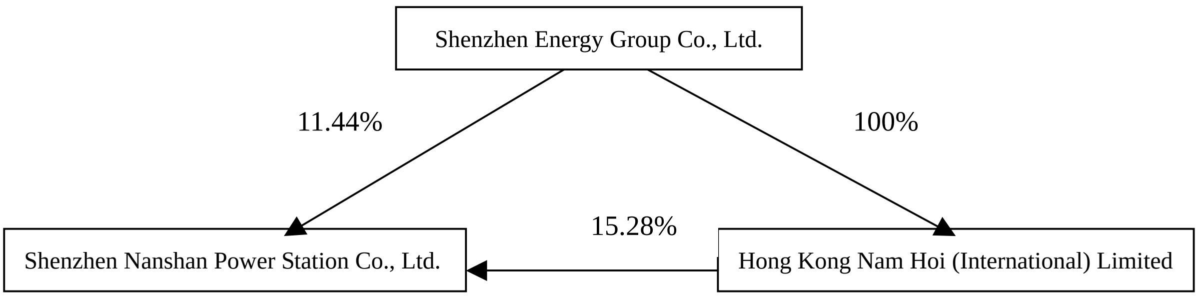
(2) Shenzhen Energy Group Co., Ltd., the Company's No. 3 shareholder indirectly holds 100% equity of Hong Kong Nam Hoi (International) Limited, the Company's No. 2 shareholder.

(3) On June 2, 2004, with approval of ZJGSZI [2005] No. 23 Notification on Authorization of Unlisted Foreign Shares of Shenzhen Nanshan Power Station Co., Ltd. to be Listed in Circulation promulgated by CSRC, unlisted foreign shares amounting to 47,553,343 of TENGDA PROPERTY CO., LTD. held from the Company transferred into listed B shares in circulation and have listed in B-share market in circulation of Shenzhen Strock Exchange since June 10, 2005.

(4) Shareholders of No. 6 to No. 10 are social public shareholders. The Company was unknown whether there exists associated relationship or consistent action.

3. Particulars about the controlling shareholder

The Company has no controlling 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.



In the report period, there existed no change in the 1st largest actual shareholder of the Company.

4. Particulars about the top ten shareholders of A-share in circulation (Ended Dec. 31, 2005)

Unit: share

Order	Names of shareholders	Shares held at year-end
1	ZHONGSHAN GAOLING INVESTMENT CO., LTD	11,040,088
2	ZOU RONG GUANG	850,000
3	CONG LI XIA	620,800
4	LI QI	440,029
5	TANG MING FANG	408,100
6	LI XIAO BEI	386,000
7	WANG JIAN CHENG	348,200
8	YANG BING TIAN	344,521
9	WANG LE LIN	325,000
10	ZHAO LIANG	318,200

Note: (1) There exists associate relationship between the 3rd shareholder of A-share in

circulation, Cong Lixia and the 8th shareholder of A-share in circulation Yang Bingtian.
(2) The Company was unknown whether there exists associated relationship or consistent action among the other shareholders of A-share in circulation.

5. Particulars about the top ten shareholders of B-share in circulation (Ended Dec. 31, 2005)

Unit: share

Order	Shareholders' name	Shares held at the year-end
1	BNP P P/PANDA INVESTMENT COMPANY LIMITED	47,553,343
2	MORGAN STANLEY INT'L (CHINA)-FIRM	22,366,183
3	CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI 5496	3,522,769
4	SKANDIA GLOBAL FUNDS PLC	3,410,000
5	TOYO SECURITIES ASIA LIMITED-A/C CLIENT.	3,394,282
6	NAITO SECURITIES CO., LTD.	3,194,124
7	Chinafamousbrand Securities Holding Co., Ltd.	2,259,559
8	DEUTSCHE BANK AG LONDON	2,130,432
9	GUOTAI JUNAN SECURIES HONG KONG LIMITED	1,511,500
10	CHINA SOUTHERN SECURITIES (HONG KONG) LIMITED	1,400,000

Note: By the end of the report period, The Company was unknown whether there exists associated relationship or consistent action among the top ten shareholders of B-share in circulation.

6. Other shareholders of legal person share holding over 10% of the company's total shares
(1) Shenzhen Guangju Electronic Investment Co., Ltd. holds 22.97% of the Company's total shares; legal representative: Zhong Chengli; date of foundation: May 31, 1989; registered capital: RMB 11.11 million; enterprise type: company with limited liability; business scope: initiating industrial enterprises and investment of electric power (specific projects subject to approval by the authority).

Hong Kong Nam Hoi (International) Limited holds 15.28% of the Company's total shares; legal representative: Yu Chunling; date of establishment: May 15, 1985; registered capital: HK$ 15.33 million; business scope: energy and electric power.

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

(I) Basic infromation

1. Members of directors

Names	Titles	Sex	Age	Office Term	Shares held at the year-begin	Shares held at the year-end	Reason for change	Total remuerations drew from the Company in the report period (RMB'0000)
WEI WEN DE	Chairman of the Board	Male	58	Jan. 2005-Jun. 2006	0	0		0
WANG JIAN BIN	Vice Chairman of the Board	Male	42	Jun. 2003-Jun. 2006	0	0		0
SUN YU LIN	Director & Vice Chairman of the Board	Male	54	Jun. 2003-Aug. 2005 Aug. 2005-Jun. 2006	0	0		0
FU BO	Director & General Manager	Male	43	Jan. 2005-Jun. 2006	0	0		64.09
YU CHUN LING	Director	Female	40	Jun. 2003-Jun. 2006	0	0		0
LI LI	Director	Male	62	Jun. 2003-Jun. 2006	0	0		0
ZHAO XIAO	Director	Male	60	Jun. 2003-Jun. 2006	0	0		0
ZHONG CHENG LI	Director	Male	58	Jun. 2003-Jun. 2006	0	0		0
HE YING YI	Director	Male	49	Aug. 2005-Jun. 2006	0	0		0
HUANG SU JIAN	Independent Director	Male	50	Jun. 2003-Jun. 2006	0	0		6.67
LIU ZHAN JUN	Independent Director	Male	47	Jun. 2003-Jun. 2006	0	0		6.67
ZHOU CHENG XIN	Independent Director	Male	50	Jun. 2003-Jun. 2006	0	0		6.67
XU JING AN	Independent Director	Male	64	Sep. 2004-Jun. 2006	0	0		6.67
YU XIU FENG	Independent Director	Male	41	Nov. 2004- Jun.2006	0	0		6.67
Total					0	0		97.44

2. Members of supervisors

Names	Titles	Sex	Age	Office Term	Shares held at the year-begin	Shares held at the year-end	Reason for change	Total remuerations drew from the Company in the report period (RMB'0000)
Zhu Tianfa	Chairman of the Supervisory Committee	Male	56	Jun. 2003-Jun. 2006	0	0		0
Ji Ming	Supervisor	Male	49	Jun. 2003-Jun. 2006	0	0		0
Zhou Qun	Supervisor	Male	41	Jun. 2003-Jun. 2006	0	0		0
He Yingyi	Supervisor	Male	49	Jun. 2003-Aug.2005	0	0		0
Li Yongsheng	Supervisor	Male	33	Jun. 2003-Jun. 2006	0	0		0
Sun Peng	Supervisor	Male	32	Aug. 2005-Jun.2006	0	0		0
Wang Rendong	Employee Supervisor	Male	44	Jun. 2003-Jun. 2006	0	0		56.08
Xu Shichun	Employee Supervisor	Male	54	Jun. 2003-Jun. 2006	0	0		44.05
Total					0	0		100.13

3. Senior Executive

Names	Titles	Sex	Age	Office Term	Shares held at the year-begin	Shares held at the year-end	Reason for change	Total remuerations drew from the Company in the report period (RMB'0000)
Fu Bo	Director, GM and Deputy GM	Male	42	Jan. 2005-Jun. 2006 Jun. 2003-Jan. 2005	0	0		64.09
Zhu Wei	Deputy GM	Male	48	Aug. 2003-Jun. 2006	0	0		59.87
Lin Qing	Deputy GM	Female	41	Oct. 2003-Jun. 2006	0	0		59.53
Lu Xiaoping	CFO	Male	43	Aug. 2003-Jun. 2006	0	0		59.51
Sun Shoulin	Chief Engineer	Male	59	Aug. 2003-Jun. 2006	16,301	16,301		59.84
Total					16,301	16,301		302.84

4. Particulars about holding the post in Shareholding Company

Name	**Name of Shareholding Company**	**Title in Shareholding Company**	**Drawing the payment (Yes / No)**
Wei wende	Shenzhen Energy Group Co., Ltd.	Deputy General Manager	Nov. 1997 to now
Wang Jianbin	Shenzhen Guangju Electronic Investment Co., Ltd.	Chairman of the Board	Feb. 1999 to now
Sun Yulin	Shenzhen State Power Science And Technology Development Co., Ltd.	Deputy General Manager	Dec. 1999 to now
Yu Chunling	Shenzhen Energy Group Co., Ltd.	Head of Planning & Development Dept.	Apr. 2003 to now
Li Li	Tengda Property Co., Ltd.	Chairman of the Board	1992 to now
Zhao Xiao	Shenzhen Energy Group Co., Ltd.	Chief Engineer	Nov. 2001 to now
Zhong Chengli	Shenzhen Guangju Electronic Investment Co., Ltd.	Chairman of the Board	Sep. 2000 to now
He Yingyi	Shenzhen State Power Science And Technology Development Co., Ltd.	Deputy General Manager	Apr. 2000 to now
Zhu Tianfa	Shenzhen Energy Group Co., Ltd.	Chief Accountant	Nov. 2001 to now
Ji Ming	Shenzhen Guangju Electronic Investment Co., Ltd.	General Manager	Sep. 2000 to now
Zhou Qun	Shenzhen Energy Group Co., Ltd.	Assistant General Manager and Director of General Office	Mar. 2003 to now
Sun Peng	Shenzhen State Power Science And Technology Development Co., Ltd.	Deputy Manager of Market Dept.	May 2004 to now
Li Yongsheng	Tengda Property Co., Ltd.	Manager	1994 to now

5. Major work experience of directors, supervisors and senior executives and particulars about holding the post in Shareholding Company

(1) Director

Mr. Wei Wende, Chairman of the Board, Senior Political Engineer, graduated from Navy the No. 1 Aviation University with major of flight driving. From 1968 to 1982, he successively took the posts of political instructor, deputy group leader and commissar of No. 2 independent group of navy aviation army; from 1982 to 1992, he successively took the posts of commissar and manager of CITIC Offshore Helicopter Co., Ltd., vice-secretary of Party Committee and secretary of Commission for Discipline Inspection; from 1992 to 1997, standing deputy general manager of Shenzhen Airport Group Company; he took deputy general manager of Shenzhen Energy Group Co., Ltd. since 1997, in this period, concurrently took the post of standing deputy director of safety committee and Chairman of the Board of Shenzhen Energy Transportation Co., Ltd.. He took the post of Chairman of the Board from Jan. 19, 2005.

Mr. Wang Jianbin, Vice Chairman of the Board, Master degree of MBA. He worked in Shenzhen Shennan Petroleum (Group) Co., Ltd. since 1989, and successively took the posts of manager of oil product, assistant general manager, deputy general manager, director and vice Chairman of the Board. He now acts as Chairman of the Board of Shenzhen Shennan Petroleum (Group) Co., Ltd. and Chairman of the Board of Shenzhen Guangju Energy Co., Ltd.

Mr. Sun Yulin, Director, Senior Engineer. From 1985 to 1999, he successively took the posts of secretary of minister of general office of ministry of electricity and water conservation, deputy division chief, secretary of party leadership group of CEC, deputy general manager, general manager and senior engineer of CEC Power Industrial Company. He now acts as deputy general manager and member of party leadership group of Shenzhen State Power Science And Technology Development Co., Ltd. and deputy director of the State Power Network Corporation Economy Development Liaison Office in Shenzhen.

Mr. Fu Bo, Director, MBA, graduated from Xi'an Air Force Engineering University with major of aeroengine. From 1984 to 1993, he took the post of lector of air machinery engineering department of Xi’an Air Force Engineering University. From Aug. 1993, he successively took the posts of secretary of general manager, deputy director, director and deputy general manager of general office; from June 1997 to now, he took the post of secretary of the Board of the Company; he took the posts of Deputy General Manager of the Company since July 2000, and now he holds the position of Chairman of the Board of Shennandian (Zhongshan), Shennandian (Dongguan) and Xingdesheng Company, and concurrently took director of Shennan Energy (Singapore) Co., Ltd. He took the posts of director and geneal manager of the Company since Jan. 19, 2005.

Ms. Yu Chunling, Director, Senior Engineer, on-job Master of Economics of Bejing University, graduated from Wuhan University of Hydraulic & Electrical Engineering with major of power station structure engineering. She successively took the posts of technician of engineering department of Guangdong Nuclear Power Joint Venture Co., Ltd., engineer of civil contract, project manager of Shenzhen Energy Investment Co., Ltd., deputy business controller, business controller and head of fuel trade department of office general of Shenzhen Energy Group Co., Ltd. Now she acts as head of plan & development department of Shenzhen Energy Group Co., Ltd.

Mr. Li Li, Director, acts as Chairman of the Board and CEO of Hong Kong Kalexpcb Industry International (Group) Co., Ltd., Chairman of the Board of Tengda Property Co., Ltd. now. He now is member of Shenzhen of CPPCC and honor citizen of Shenzhen, Zhongshan and Guangzhou City.

Mr. Zhong Chengli, Director, Engineer, graduated from chemistry department of Hefei University of Technology. From 1989 to 1999, he successively took the posts of assistant general manager, director, deputy general manager, secretary of party committee, secretary of committee of discipline inspection of Shenzhen Shennan Petroleum (Group) Co., Ltd. Now he acts as director, general manager, vice secretary of party committee of Shenzhen Guangju Energy Co., Ltd. and Chairman of the Board of Shenzhen Guangju Guangju Electronic Investment Co., Ltd..

Mr. Zhao Xiao, Director, Senior Engineer, graduated from electrical engineering department of Xi’an Jiaotong University with Master Degree. He successively took the posts of deputy director, deputy superintendent of Northwest Power Administrative Bureau Examination Research Office, deputy general manager of Shenzhen Mawan Power Co., Ltd., head of power department, head of production and technology dept., deputy chief engineer of Shenzhen Energy Group Co., Ltd.. He now acts as chief engineer, director of general office safety committee of Shenzhen Energy Group Co., Ltd. and concurrently director of preparation for structure office of Pump Water and Accumulated Energy.

Mr. He Yingyi, Supervisor, Economist, Bachelor degree of law, graduated from Hebei University with major of economic management. He ever worked in the Power Station of the No. 53 Train of Electrical Business Bureau of Ministry of Water and Electricity, Zhejiang Zhenhai Power Plant and Zhejiang Beilun Power Plant, and successively took the posts of director of branch plant, deputy factory director in charge of business. Since 2000, he acts as manager of market dept. of Shenzhen State Power Science & Technology Development Co., Ltd..Now he acts as deputy manager of Shenzhen State Power Science & Technology Development Co., Ltd, and cocurrently takes Chairman and General Manager of Shenzhen State Power Science&Trading Group Co., Ltd.

Mr. Huang Sujian, Independent Director, graduated from Graduate School of the Chinese Academy of Social Sciences with Doctor Degree, Researcher and Doctor Tutor in 1988. Since 1988, he acts as a researcher in Institute of Industry Economy ofthe Chinese Academy of Social Sciences. Now, he now the deputy director, researcher in Institute of Industry Economy of the Chinese Academy of Social Sciences; director of Institute of Management and Science of the Chinese Academy of

Social Sciences; doctor tutor in Graduate School of the Chinese Academy of Social Sciences, deputy president and president of an executive council of China Enterprise Management Association; and concurrently acts as independent director of Shenzhen Energy Investment Co.,Ltd., Hubei Hongcheng General Machinery Co.,Ltd., Wolong Electri Group Co.，Ltd., and Tongling Jingda Special Magnet Wire Co.,Ltd..

Mr. Liu Zhanjun, Independent Director, Doctor in Economics and Post-doctorate in Management, graduated from Politics department of Henan University, economy department of Graduate School, the Chinese Academy of Social Sciences and Institute of Economy of Nankai University. He successively took the posts of assistant secretary-general, head of research consultation dept. of Institute of General Development (China • Shenzhen) and professor of economics. Now he acts as director and general manager of Shenzhen Neptunus Bioengineering Holdings Co., Ltd.

Mr. Zhou Chengxin, Independent Director, Juris, graduated from of law department of Anhui University and Law College of Wuhan University, and obtained Bachelor degree, Master degree and Doctor Degree of law early and late. From Dec. 1988 to Dec. 1992, he took the post of lector and associate professor in Law College of Wuhan University early and late, in this period, he went to Law College, U.S.A Michigan University for advanced studies as visiting scholar from Aug. 1990 to Nov. 1991. Since Dec. 1992, he successively took the posts of deputy director, director, deputy researcher of law and researcher of Institute of Shenzhen Legal System, at the same time, he concurrently took the posts of lawyer of Guangdong Orient Kunlun Law Firm Shenzhen Branch, standing director of Chinese Society of International Economy Law, intercessor of China International Economic and Trade Arbitration Commission and social post of intercessor of Shenzhen, Zhuhai, Shanghai, Nanjing Arbitration Commission.

Mr. Xu Jing’an, Independent Director, Researcher, graduated from Department of Journalism of Fudan University. He successively took the posts of section chief of Research Office of the State Development Planning Commission, division chief of the State Commission for Economic Restructuring, deputy director of China Society of Economic Reform, director of Shenzhen Municipal Commission for Economic Restructuring. He now acts as Chairman of the Board of Shenzhen Xu Jing An Investment Advisor Company, president of Institute of Shenzhen New Century Civilization. He now acts as professor of China Renmin University and Shenzhen University.

Mr. Yu Xiufeng, Independent Director, Doctor of Law. He ever studied abroad in WASEDA University with law department. Now he acts as executive partner of Deheng Law Office Shenzhen Branch, Post-doctorate of application economics of Jilin University, intercessor of Shenzhen Arbitration Commission, pluralistic commissary, law assistant of Shenzhen Municipal People's Congress Standing Committee, deputy director commissary of Criminal Justification Special

Commission of Shenzhen Lawyer Association and pluralistic researcher of Nanjing University.

(2) Members of supervisors

Mr. Zhu Tianfa, Chairman of the Supervisory Committee, CPA, graduated from Dongbei University of Finance and Economics. He successively took the posts of Head of Financial Department and Director of Shenzhen Special Economic Zone Power Development Company, director accountant, assistant Head, deputy Head, Head and deputy chief accountant of Shenzhen Energy Group Co., Ltd.; now he acts as chief accountant of Shenzhen Energy Group Co., Ltd. and General Manager of Shenzhen Xibu Power Co., Ltd.

Mr. Ji Ming, Supervisor, Master degree of Management, Engineer, graduated from Changchun Institute of Optics and Fine Mechanics and Fudan University. From 1994 to 1999, he successively took the posts of manager of investment department of Shenzhen Shennan Petroleum (Group) Co., Ltd. Now he acts as deputy general manager of Shenzhen Guangju Energy Co., Ltd. and general manager of Shenzhen Guangju Electronic Investment Co., Ltd..

Mr. Zhou Qun, Supervisor, Economist, graduated from East China Geological Institute with Bachelor degree. He ever worked in Shenzhen Municipal Geological Bureau, Shenzhen Nanshan District Investment Management Company, Shenzhen Municipal State-owned Assets Office and Shenzhen Investment Holdings Corporation, and successively took the posts of assistant engineer, director of general office, deputy division chief, and deputy secretary of secretariat of the Board. From Dec. 2001 to Mar. 2003, he held the post of secretary of the Board of Shenzhen Energy Group Co., Ltd. He now acts as assistant general manager and director of general office of Shenzhen Energy Group Co., Ltd.

Mr. Li Yongsheng, Supervisor, Bachelor of York University. He erve took the post of general manager of Purchasing Dept. of Hong Kong Kalexpcb Industry International (Group) Co., Ltd. He now acts as manager of Tengda Property Co., Ltd.

Mr. Sun Peng, supervisor, Bachelor of Changsha University of Electric Power. He successively worked at China Eletric Power Financial Co., Ltd and Shenzhen State Power Scientech Development Co., Ltd, in May 2004 he held the post of deputy General Manager of market business department of Shenzhen State Power Scientech Development Co., Ltd, now he takes Deputy General Manager of Shenzhen State Power Science & Trade Logistics Group Co., Ltd. and General Manger of Shenzhen State Power Scientech & Industrade Co., Ltd.

Mr. Wang Rendong, Employee Supervisor, Master degree, graduated from Huazhong University of Science and Technology. He successively took the posts of Head of Development Dept., Head of Engineering Dept. and deputy chief engineer of the

Company since 1990. He was responsible for long-term engineering structure and technical renovation of project of “Substituting the Big for the Small”. He now took the post of assistant general manager of the Company, director general manager of Engineering Company and director of Shennandian (Dongguan) Company.

Mr. Xu Shichun, Employee Supervisor, graduated from Northern Jiaotong University with major of wire telecommunications. He worked in the Company since 1990 and successively took the posts of deputy general manager, chief economist, chairman of the labor union. He now acts as deputy factory director of Nanshan Power Plant of the Company.

(3) Senior executive
Mr. Fu Bo, Director General Manager. For details, please refer to resume of Director.

Mr. Zhu Wei, Deputy General Manager, Engineer, graduated from Guangdong Electric Power School. He successively took the posts of deputy Head of development, Head of Supplying Dept. and assistant of general manager of the Company since 1990. In the course of work, he obtained on-job postgraduate, he now acts as Deputy General Manager of the Company and Chairman of the Board of Xiefu Company.

Ms. Lin Qing, Deputy General Manager, Senior Engineer, Master degree, graduated from electricity department of Hunan University with major of electricity system. From the end of the year 1997, he successively took the posts of Head of party and crowd department, member of party committee, chairman of the organ labor union, director of office general, secretary of party branch of office general, assistant general manager and director of the labor union of Shenzhen Energy Group Co., Ltd.. She took the post of deputy general manager of the Company since Oct. 2003. Now she took the posts of Chairman of the Board of Xindianli Company and director of Tongling Shenneng Company.

Mr. Lu Xiaoping, CFO, Senior Accountant, Master of Zhongnan University of Finance & Economics. He successively took the posts of accountant and director of auditing dept of Shenzhen Energy Group Co., Ltd. since Dec. 1998. He took the post of CFO of the Company and Supervisor of Tongling Shenneng Company from Aug. 2003.

Mr. Sun Shoulin, Chief Engineer, Senior Engineer, graduated from Nanjing Electric Power School with major of generate electricity plant, power network and power system. He successively took the posts of Head of electric & thermal dept., Head of overhaul dept. and deputy chief engineer of the Company since 1992. He now acts as Chief Engineer of the Company and Chairman of the Board of Engineering Company and of Shennandian (Dongguan) Company.

6. Annual remuneration

According to relevant regulations of Articles of Association, remuneration of director and supervisor depends on Shareholders' General Meeting; remuneration of senior executives depends on Board of Director. In the report period, senior executives of the Company all drew their remuneration from the Company.

(1) In the report year, independent director drew their allowance from Jan. to Sep. amounting to RMB 66,700 (After tax) each person according to relevant rules of Interim Regulations on Management of Special Funds of Board of Director approved by Shareholders' General Meeting of the Company, the Company took the relevant fees such as traffic cost, boarding cost, researching cost and studying cost occurred due to work.

Except that inner director Fubo, Employee supervisor Wang Rendong and Xu Shichun drew the remuneration from the Company, members of Board of Director, including Wei Wende, Wang Jianbin, Sun Yulin, Yu Chunling, Zhao Xiao, Zhong Chengli, Li Li and He Yingyi, and members of Supervisory Committee including Zhu Tianfa, Ji Ming, Zhou Qun, Li Yongsheng, Sun Peng, all drew the remuneration from shareholder company which was not in accordance with Interim Regulations on Management of Special Funds of Board of Director in 2005.

The Company took the relevant fees such as traffic cost, boarding cost, researching cost and studying cost occurred due to the obligation performances by directors, supervisors.

(2) The Company has established more perfect remuneration system and reward measures. The remuneration and appraisal committee worked out withdrawal of the 2005 annual remuneration and plan for assessment and reward for production operation target and submitted to the Board of Director of the Company and reported to Shareholders' General Meeting for approval and implementation. The annual salary received by senior executive is composed the wages (the position wage & floating wage), subsidy and the year-end rewards. Total annual remuneration of director & General Manager is confirmed by Board of Director, payments of other senior executives and employees is distributed through detailed plan produced by GM authorized by Board of Director and approval of Chairman of the Board. The wages of senior executives were paid on monthly according to the position function decided by the Board; the year-end rewards were determined based on the annual checking targets and reward plan decided by the Board at the year beginning, and distributed based on the fulfillment of the targets and personal checking cases. However it cannot exceed the annual remuneration of director & General Manager.

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

(1) Whereas Mr. Liu Deyu resigned its positions of director of the 4th Board and Chairman of Board of the Company due to work, and Mr. Zhang Renyi resigned its posts of director and General Manager of the Company due to personal reason, the 1st Extraordinary Shareholders' General Meeting of 2005 which held on Jan., 19, 2005 examined and approved that additionally elected Mr. Wei Wende and Mr. Fu Bo as director of the 4th Board of Director. The 12th meeting of the 4th Board of the

Company unanimously elected Mr. Wei Wende as Chairman of the Board of the 4th Board of the Company, and engaged Mr. Fu Bo as General Manager of the Company.
(2) On July 21, 2005, the Company the 15th Meeting of the 4th Board and unanimously agreed that Mr. Cui Jichun resigned its director and vice Chairman of the Board of the Company due to work and elected Mr. Sun Yulin as Vice Chairman of the 4th Board of the Company and additionally elected Mr. He Yingyi as director of the 4th Board of the Company at the same time. In the same day, the 14th Meeting of the 4th Supervisory Committee was held and unanimously agreed to examine and approve that Mr. He Yingyi resigned supervisor of the Company due to work and elected Mr. Sun Peng as supervisor of the 4th Supervisory Committee of the Company, which all examined and approved by the 3rd Extraordinary Shareholders' General Meeting of 2005 held on August 29, 2005.

(II) Employees
Ended Dec. 31, 2005, the Company had totally 402 employees registered in the book, (excluding shareholding subsidiaries), fell off slightly over the previors year. Of them, 112 are personnel engaged in equipment operation, 72 are personnel engaged in equipment overhauling, 15 are personnel engaged in material supply, 20 are financial personnel and 48 are administrative and managerial personnel; education degree: 119 persons hold college degree, 102 hold bachelor degree and 24 hold masters degree.
As the Company has implemented Shenzhen social insurance system, the Company did not have to pay any expenses to the retired staff.

V. Administrative Structure
(I) Company Administration
In accordance with the requirements of the relevant laws and regulations such as Company Law, Securities Laws, Administration Rules for Listed Companies and Rules for Listing of Share in Shenzhen Stock Exchange (2004 Revision), through establishing and perfecting various internal control systems continually, including amending Articles of Association of the Company and rules of procedure of "Three Meetings" in time, the Company further defined and standardized duties, rights and obligation of "Three Meetings"; the Company's "Three Meetings" could independently fulfill their duties in line with the regulations of the relevant laws and rules; according to relevant laws, regulations and requirements of CSRC, with approval of the 14th Meeting of the 4th Board of Director of the Company, Board of Director established strategy and investment management committee, nomination committee and audit committee, formulated relevant work details and perfected structure and decision-making function of the Board. In 2006, combined with Share Merger Reform, the Company would further modified the legal administration structure of the Company, and establish long-term encouragement and disciplinary mechanism in proper time and form scientific decision-making mechanism and supervision mechanism step by step.

(II) Performance of Independent Directors
The Company's independent directors did not propose the objection on proposals

examined by all meetings of the Board held in 2005 and other matters. Independent directors carefully checked significant related transaction and other significant events, which independent directors need to express independent opinion, and issued written opinion letter of independent director.

Particulars about independent directors' presenting the Board meeting in the report period:

Name of independent directors	Times are supposed to be attendance	Presence in person (time)	Entrusted presence (time)	Absence (time)	Remark
Huang Sujian	6	4	2	0	
Liu Zhanjun	6	5	1	0	
Zhou Chengxin	6	6	0	0	
Xu Jing'an	6	6	0	0	
Yu Xiufeng	6	5	1	0	

(III) The first largest shareholder of the Company exerted the investor's rights according to the laws through the shareholders' general meeting. The Company is separated from the first largest shareholder in terms of Business, Assets, Personnel, Organization and Finance; the Company possessed the whole business and independent operating capability.

1. Business: The business of the Company is completely independent from the first largest shareholder. Although the First Principal Shareholder and its subsidiaries operate in the same or similar business, the Company is totally separated in the management and operation of business.

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

3. Personnel: The Company is absolutely independent from the first largest shareholder. The Executives, Chief Financial Officer and the Secretary of the Board don't take any position in the first largest shareholder.

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

5. Finance: According to the relevant requirements of laws and rules, the Company establishes sound financial management system and accounting management system, and accounts independently. The first largest shareholder isn't involved in the financial and accounting activities of the Company.

(IV) The Achievements Evaluation and Encouragement Mechanism of Senior Executives of the Company

In the report period, the Company still adopted the achievements evaluation and encouragement mechanism for senior executives based on the operation performances. The achievements evaluation for 2005 is still in progress at present. After accomplishment of Share Merger Reform, according to The Measures Governing Equity Incentive Plans of Listed Companies (For Trial Implementation) promulgated by CSRC and relevant regulations of our state, the Company researched and formulated equity incentive mechanism for managers of the Company and reported to State-owned Assets Administration & Supervision Commission of Shenzhen Municipal for examination and approval and then carry out implementation.

(V) Management of investor relationship

In the report period, the Company actively strengthened the management of investor relationship, answered the consultation phone and replied to E-mail of investors from the Internet in time, established program of the Management System of Investor's Relationship in the web site of the Company and supplied a platform to communicate with managers of the Company, the Company continually improved on and enhanced the quality of information disclosure, at the same time, it still strengthened the initiative of information disclosure, guaranteed that the relevant information of the Company could provide to the vast investors timely, truly and completely; while conveying the Company's operation development stratagem, the Company still carefully heard investor's thinking, drew on the wisdom of the masses, realized the situation of exchange between the Company and investors, and improved the Company's popularity through a series of effective measures.

VI. Brief of the Shareholders' General Meeting

In the report period, the Company held 2004 annual shareholders' general meeting and three extraordinary shareholders' general meetings of 2005. The meetings were summarized as follows:

(I) 2004 Annual Shareholders' General Meeting:

On April 15, 2005, the Company held 2004 Annual Shareholders' General Meeting and the relevant resolutions of the meeting has been published on designated newspaper dated April 16, 2005.

(II) The 1st Extraordinary Shareholders' General Meeting 2005

On Jan., 19, 2005, the Company held the 1st Extraordinary Shareholders' General Meeting 2005 and the relevant resolutions of the meeting has been published on designated newspaper dated Jan., 20, 2005.

(III) The 2nd Extraordinary Shareholders' General Meeting 2005

On Aug., 22, 2005, the Company held the 2nd Extraordinary Shareholders' General Meeting 2005 and the relevant resolutions of the meeting has been published on designated newspaper dated Aug., 23, 2005.

(IV) The 3rd Extraordinary Shareholders' General Meeting 2005

On Aug., 29, 2005, the Company held the 3rd Extraordinary Shareholders' General Meeting 2005 and the relevant resolutions of the meeting has been published on designated newspaper dated Aug., 30, 2005.

VII. Report of the Board of Directors

(I) The overall operation status in the report period

1. Scope of main operations and operation

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 RMB426,368.90ten 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 annual total profit the Company realized RMB 1,010.57 ten thousand and the net equity profit 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.

2. Particulars about composing of income from main operations and profit from main operations in the report period

Unit: RMB’0000

Classified according to industries or products	Income from main operations	Cost of main operations	Gross profit ratio (%)
Production of electric power	281,564.75	288,268.00	-2.38
Production of heating power	3,643.38	3,271.03	10.22
Contract for project	17,860.07	11,691.24	34.54

Unit: RMB’0000

Classified according to area	Income from main operations	Cost of main operations	Gross profit ratio (%)
Shenzhen	262,082.06	248,526.18	5.17
Zhongshan	40,986.14	54,704.09	-33.47

Note: the income from main operation in electrical production increased 26.94% over the same period of last year, which was mainly because the amount of electricity generating increased influenced by the rising in the demand of electricity in Shenzhen and running of Shennandian (Zhongshan) Company on Jan. 1, 2005. However, the gross ratio of electric production in the report period was -2.38% influenced by the continuously rising in international oil price and adopting the temporary electrovalence the report period by Shennandian (Zhongshan) Company with decreasing 23.27% over last year. In addition, the gross ratio on production of heating power was 10.22% due to the externally providing for gasoline during July to December of the report period.

3. 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.

4. The financial highlights of the Company

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

5. 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 yea; 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.

(II) 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 1^{st} to 3^{rd} 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 4^{th} 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 11^{th} 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.

(III) Investment of the Company

1. Investment of the raised fund

In the report period, there were no raised fund in the Company, and there were no raised fund before the report period used till the report period.

2. Investment of the non-raised fund

1) Project of Dongguang Gaobu Power Plant: 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.

2）Project of combined heat and power generation : 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. According to relevant regulations, the thermoelectricity cogeneration set will be not brought into the scope of Guangdong closing down small generating sets and continue to obtain the preferential policy of national thermoelectricity cogeneration. The enterprises of electrical network are permitted into the network and generating electricity according to the principle of heating deciding power and operated to the network. In 2005, the gas supply of the project was amounting to 170,000 tons; income amounted to RMB 3,643.38 ten thousand and business profit amounted to RMB 3.7235 million.

3) Project of transforming oil to gas: The project of Nanshan Power Plant (including Xindianli Company) was approved in the 17th meeting of the 4th 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.

(IV) Routine Work of Board of Directors of the Company

1. Election on changes of Board of Directors

1) In December, 2004, the original chairman of Board of Directors and general manger successively resigned from the company. The shareholders elected Mr. Wei Wende as the chairman of Board of Directors and engaged Mr. Fu Bo as the general manager with holding the attitudes of earnest and responsibility, and make agreement on new working opinions to guarantee the normal production , operation and sustainable development of the Company.

2) In July, 2005, the original vice-chairman Mr. Cui Jichun of the Company could not act as the director, vice-chairman of the 4th Board of Directors due to the work reason. After the recommendation of the shareholders of the Company and within the legal procedure, current director of the Company Mr. Sun Yulin was elected vice-chairman of the Company, and Mr. He Yingyi was supplementary voted director of the 4th Board of Directors of the Company.

2. Meetings of Board of Directors

In the report period, Board of Directors held 8 meetings, and organized 2004 Annual Shareholders' General Meeting and 3 Extraordinary Shareholders' General Meeting in 2005. The detailed meetings were as follows:

1) On January19, 2005, the 12th meeting of the 4th Board of Directors was held, which examined and approved Proposal on Election of Chairman and Proposal on Engaging General Manger; and the relevant resolutions were published on Securities Times, China Securities and Ta Kung Pao dated January 20, 2005.

2) On March 5, 2005, the 13^{th} meeting of the 4^{th} Board of Directors was held (2005 Annual Board of Directors Conference), which examined and approved 2004 Work Report of General Manger, 2004 Financial Settling Report, 2004 Annual Report and its Summary (Domestic and Overseas Version), and 2004 Profit Distribution and Capitalization of Capital Reserve; and the relevant resolutions were published on Securities Times, China Securities and Ta Kung Pao dated March 8, 2005.
3) On April 15, 2005, 14^{th} meeting of the 4^{th} Board of Directors was held, which examined and approved 1^{st} Quarterly Report 2005 and its Summary (Domestic and Overseas Version), 1^{st} Quarterly Financial Settling Report 2005, and heard the reports on the 1^{st} quarterly production, operation and management of 2005; and the relevant resolutions were published on Securities Times, China Securities and Ta Kung Pao dated April 19, 2005.
4) On July 18, 2005, Extraordinary meeting of the 4^{th} Board of Directors was held by way of communication, which examined and approved the Proposal on Application of Non-listed Foreign Share of Hong Kong Nam Hoi (International) Limited Converted into Domestically Listed Foreign Shares, Proposal on Revising the Articles of Association; and the relevant resolutions were published on Securities Times, China Securities and Ta Kung Pao dated July 20, 2005.
5) On July 21, 2005, the 15^{th} meeting of the 4^{th} Board of Directors was held, which examined and approved Proposal on the Capital Increase of Shenzhen Xindianli Industrial Co.,Ltd, Proposal on Revising the Rules of Procedure of the Shareholders' General Meeting of Shenzhen Nanshan Power Station Co., Ltd; and the relevant resolutions were published on Securities Times, China Securities and Ta Kung Pao dated July 26, 2005.
6) On August 11, 2005, the 16^{th} meeting of the 4^{th} Board of Directors was held, which examined and approved 2005 Interim Profit Settling Report, 2005 Semi-Annual Report and its Summary (Domestic and Overseas Version), and heard the reports on 2005 1^{st} quarterly production, operation and management; and the relevant resolutions were published on Securities Times, China Securities and Ta Kung Pao dated Aug. 13, 2005.
7) On August 22, 2005, Extraordinary meeting of the 4^{th} Board of Directors was held by way of communication, which examined and approved Plans on 2005 Remuneration Withdraw and Examination of the Operation Goal and Rewards and Punishment Plan, Proposal on Revising the Temporary Regulation of Remuneration Management of the Company.
8) On October 10, 2005, the 17^{th} meeting of the 4^{th} Board of Directors was held, which examined and approved Plans on 2006 Examination and Repair and Technical Reform of Nanshan Power Plant, Proposal on Adjustment on Indicator for Performance Check of 2005 Power Generation of the Company, Proposal on Implementation of Transferring Oil to Gas of Nanshan Power Plant, the 3^{rd} Quarterly Financial Settling Report 2005, the 3^{rd} Quarterly Report 2005 and its Summary (Domestic and Overseas Version), and heard the reports on the 3^{rd} quarterly production, operation and management of 2005.
3. Implementation of the resolutions of the Board of Directors

In the report period, according to the resolutions made in 2004 annual shareholders' general meeting and the 1st, 2nd, 3rd extraordinary meeting of shareholders' general meeting 2005, the followings were as follows: 1) Supplement member of the Board of Directors ; 2) Complete earnings dividend 2004; 3) Pay domestic and foreign CPAs for its 2004 remunerations, and engage 2005 CPAs and legal consulter; 4) Application of non-listed foreign share of Hong Kong Nam Hoi (International) Limited Converted into domestically listed foreign shares(B-share) was approved by Department of Foreign Trade of Ministry of Commerce of PRC, the Board of Directors will assist CSRC to deal with circulating application procedure; 5) The revising of Articles of Association obtained the approval of Department of Foreign Trade of Ministry of Commerce of PRC, and transmitted to Shenzhen Bureau of Industry and Commerce for records; 6) Complete the revising of Rules of Procedure of the Shareholders' General Meeting of the Company.

At the same time, the Board of Directors organized to review the investing projects in Zhongshan and Dongguan of the Company, and made prompt and correct decision about significant investment and work affairs to guarantee the normal running of the operation and management of the Company.

4. Preplan on Profit Distribution or Converting Capital Public Reserve into Share Capital in 2005

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. 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.

5. Information disclosure

In the report period, according to Supervising department and relevant laws and regulations, the Board of Director disclosed the fixed and temporary notices amounting to 39. After the examination and appraisal of Shenzhen Stock Exchange, 2005 information disclosure was estimated to be fine.

(V) 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.

VIII. Report of the Supervisory Committee

(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) 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 that 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 and returning 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.

IX. Significant Events

(I) In the report year, the Company had no material lawsuits and arbitrations.
(II) In the report period, the Company had no acquisition and sales of assets, consolidation and merger
(III) Significant related transactions
1. Related transactions about routine operation
In the report period, the Company had no significant related transactions about purchase and sale of goods and supplying labor service.
2. Related transactions occurred in transferring of assets and share equity
In the report period, the Company had no related transactions about assets and share equity transfer.
3. Related transactions occurred of investment together by the Company and related parties
1) In the report period, the Company and Xingdesheng Company separately added the 4^{th} capital of the same amount to Shennandian(Zhongshan) Company. So far, the registration capital by four times of Shennandian(Zhongshan) Company amounting to RMB 39,680 ten thousand reached it position.
2) In the report period, the Company and Xingdesheng Company separately added the 2^{nd} and 3^{rd} capitals of the same amount to Shennandian(Dongguan) Company.
4. There existed current credits and liabilities and guarantees between the related parties (including subsidiaries not listed into consolidated scope) and the Company.
(1) Ended Dec. 31, 2005, the Company provided guarantee for RMB 0.23 billion for holding company Shen Nandian (Zhongshan) Power Co., Ltd.
(2) Ended Dec. 31, 2005, the Company should pay related company Shenzhen Xiefu Oil Supply Co., Ltd. amounting to RMB 3,080,700.
(3) Ended Dec. 31, 2005, the Company should pay related company Shenzhen Energy

Group Co., Ltd. amounting to RMB 547,400.
The above matters had no significant influence on the Company.
5. Other significant related transactions
The Company had no other significant related transactions.

(IV) Significant contracts of the Company and its implementation
1. Custody, contract and lease
On Dec. 20, 2003, the Company signed Contract on Contracting Enlargement Construction Project of Foshan Shakou Power Plant with Foshan Funeng Power-generating Co., Ltd., with the total contract amount of RMB 350 million, of which amount for purchasing equipment was RMB 145 million. Ended Dec. 31, 2004, the complement rate of project was 60%. The project was put in production in May, 2005.
2. Significant guarantee
According to the requirements of Notification on Several Problems about Standardizing the Capital Current between the Listed Companies and Related Parties and External Guarantee of Listed Companies (ZJF [2003] No. 56) and Notification on Standardizing External Guarantee of Listed Companies (ZJF[2005] No. 120) promulgated by CSRC, the Company conducted self-inspection on capital current with related parties and external guarantee:
Ended Dec. 31, 2005, the Company provided bank loan guarantee amounting to RMB 230 million for holding subsidiary Shen Nandian (Zhongshan) Power Co., Ltd. (hereinafter referred to “Shen Nandian (Zhongshan) “). Because the electrovalence to the network did not get approval from national relevant department, and since Shen Nandian (Zhongshan) Company was put into production this report year, temporary electrovalence 0.457 Yuan/Kwh was the settling electrovalence to the network. At the same time, the power generation cost was climbing due to the highly-remained international fuel price; the serious upside-down between the electrovalence to the network and power generation cost make the Company suffer great losses in 2005 with the ratio of debts to asset of 85.67%.
3. In the report period, the Company didn’t entrust others to manage cash assets.
4. In the report period, the Company had no other significant contracts.

(V) Implementation of commitment of the Company
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 March 28, 2006 with the approval of Ministry of Commerce.
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.

(VI) The Company's engagement of certified public accounts and payment of remuneration in the report period
From listing year 1994 to year 2005, the Company all through engaged Guangzhou Yangcheng CPAs Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants as the Company's domestic and foreign auditor respectively (The relevant resolutions were published in the designated newspapers on Apr. 16, 2005).
The Company decided the auditing remuneration of accountants subject to the approval of the Board of Directors and the Shareholders' General Meeting, according to Provisional Regulation on Charge Standards of Certified Public Accounts released by Shenzhen Bureau of Finance with SCZ (1995) No. 38 document and the Company's total annual assets, and referring to the payment of auditing expense of other listed companies in the equivalent scale. The Company and its subsidiaries engaged certified public accounts with details as follows:

Auditing items	2005		2004	
	Auditors	Auditing expenses	Auditors	Auditing expenses
Group consolidated financial report and interim and annual financial report of domestic subsidiaries under Chinese Accounting Standards	Guangzhou Yangcheng CPAs Co., Ltd.	RMB790,000	Guangzhou Yangcheng CPAs Co., Ltd.	RMB790,000
Group consolidated financial report under International Accounting Standards	PricewaterhouseCoopers Certified Public Accountants	HKD840,000	PricewaterhouseCoopers Certified Public Accountants	HKD740,000
Annual financial report of foreign subsidiaries	Ernst & Young Certified Public Accountants	S$2806.30	Ernst & Young Certified Public Accountants	S$2806.30

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

(VII) 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.

(VIII) Other significant matters

1. After the Reply of SJMF [2002] No. 68 Document of Shenzhen Economics and Trade Bureau, New Power Company won Advanced Technology Enterprise of Foreign Investment. After successfully passing 2004 assessment, it continually enjoyed series of preferable policies such as reducing and exempting tax.

2. Two suit of gas & steam combined cycle power unit with capacity of 2×180, 000 kilowatt of Zhongshan Nanlang Power Plant of Shennandian (Zhongshan) Electric Power Co., Ltd. has put into business operation formally since Jan. 1, 2005.

3. According to the spirit of combined document Notification on Delivering Fuel Subsidy to Fuel Power Plant in 2004 Summer Fastigium (SMGFZI [2005]No. 28) permulgated by Bureau of Trade & Industry of Shenzhen Municiplaity and Finance Bureau of Shenzhen, the Company received subsidy for electricity in network of power generation in the top peak of summer fastiguium among May- Oct., 2004 amounting to RMB 8,774,570. (For details refers to relevant notice on designated newspaper dated March 23, 2005)

4. On Jun. 2, 2004, 47,553,343 non-listed foreign shares held by foreign sponsor shareholder, Tengda Property Co., Ltd., have converted to domestic listed foreign shares (B-share) and have circulated on the B-share market of Shenzhen Stock Exchange on June 10, 2005. (Refer to relevant Public Notice published in designated newspaper on Jun. 7, 2005)

5. New Power Company invested and established the project of Combined Heat & Power and started up formally on June 30, 2005, the said project belongs to follow-up project of "Replacing the small with the large" technological reform project of New Power Company, utilizing high efficient waste heat boil of PG9171E type of gas & steam combined cycle power unit which put into production on Sep., 30, 2003 to intensively supply gas for Textile Printing & Dyeing Mill in Nanyou District of Nanshan, Shenzhen, it was the first time that our nation utilized 9E type combustion engine to implement environmental project of Combined Heat & Power. The implementation of the said project could not only improve energy utilization efficiency but also decrease air pollution, and it has comprehensive benefit like saving energy, improving environment, increasing heating quality, enhancing power supply, and so on, it also could improve city environmental protection and ecological conservation level, strongly promote development of recyclable economics and

integrated utilization of energy and resources. (Refer to relevant Public Notice published in designated newspaper on Jul. 1, 2005)
6. Examined and approved by the 15th Meeting of the 4th Board of Director of the Company, in 2005, New Power Company capitalized registered capital amounting to RMB 56.35 million with common surplus reserves; it's up to RMB 113.85 million after capitalizations, total amount of investment would be increased to RMB 283.87 million correspondingly according to our nation's relevant regulations at the same time.
7. On July 21, 2005, the 15th Meeting of the 4th Board of Director of the Company examined and approved Proposal on Shenzhen Nanshan Power Station Co., Ltd and Zhongshan Power Development Co., Ltd Carrying out Equity Transfer for its Underlying Zhongshan Power Generation Plant Co., Ltd and Zhongshan Zhongfa Power Co., Ltd. (Refer to relevant Public Notice published in designated newspaper on Jul. 26, 2005)
8. The controlling subsidiary of the Company, Shennandian (Dongguan) Company signed medium-term loan agreement amounting to RMB 300 million with Shenzhen Branch of China Minsheng Banking Corp., Ltd., a set of gas & steam combined cycle power unit pledged as mortgage, lengthy of maturity from August 2005 to August 2010.
9. According to the spirit of combined document Notification on Delivering Fuel Subsidy to Fuel Power Plant in Jan. – Apr., 2005 (SMGDZI [2005]No. 112) permulgated by Bureau of Trade & Industry of Shenzhen Municiplaity and Finance Bureau of Shenzhen, the Company received subsidy for electricity in network of power generation in Jan. – Apr., 2005 amounting to RMB 19,276,650. (For details refers to relevant notice on designated newspaper dated Sep., 2, 2005)
10. According to the spirit of combined document Notification on Delivering Fuel Subsidy to Local Power Plant in May-Aug., 2005 (SMGDZI [2005]No. 162) permulgated by Bureau of Trade & Industry of Shenzhen Municiplaity and Finance Bureau of Shenzhen, the Company received subsidy for electricity in network of power generation in May-Aug., 2005 amounting to RMB 90,219,800. (For details refers to relevant notice on designated newspaper dated Dec., 21, 2005)
11. Based on the spirit of Reply on Issue of Shenzhen New Power Industrial Co., Ltd Purchasing Homemade Equipment Investment to Offset Enterprise Income Tax (SDSSH [2005] No. 700) promulgated by the 3rd tax inspection department of Administration of Local Taxation of Shenzhen Municipality, New Power Company gained enterprise income tax totaling RMB 12,249,469.08 which resulted from New Power Company purchasing homemade equipment investment through the technological reform project of "Replacing the small with the large" in 2004 returned from Administration of Local Taxation of Shenzhen Municipality. (Referring to relevant public notice of designated newspaper dated Dec., 29, 2005 for details)

X. Financial Report

PricewaterhouseCoopers Certified Public Accountants audited the financial reports of the Company and presented unqualified auditor's report.

(I) Audit Report (Attached)
(II) Accounting statements (Attached)
(III) Notes of Accounting Statement (Attached)

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)

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, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 circumstances of the Group, 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 affairs of the Group as at 31 December 2005 and of its profit and cash flows for the year then ended.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 7 April 2006

SHENZHEN NANSHAN POWER STATION CO., LTD.

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2005	2004
ASSETS			
Non-current assets			
Land use rights	6	36,888	31,873
Intangible assets	7	33,360	(19,653)
Property, plant and equipment	8	2,919,201	2,422,133
Interest in associates	9	25,400	16,536
Deferred income tax assets	20	8,936	9,280
Available-for-sale financial assets	10	53,919	-
Non-trading securities		-	71,885
		3,077,704	2,532,054
Current assets			
Inventories	11	430,329	249,409
Trade and other receivables	12	448,131	392,980
Cash and cash equivalents	13	307,525	581,651
		1,185,985	1,224,040
Total assets		4,263,689	3,756,094
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	547,966	547,966
Other reserves	15	735,907	652,207
Retained earnings	16		
Proposed final dividend		-	273,983
Others		223,534	233,980
		1,507,407	1,708,136
Minority interest		172,898	102,033
Total equity		1,680,305	1,810,169
LIABILITIES			
Non-current liabilities			
Borrowings	19	416,783	429,524
Current liabilities			
Trade and other payables	17	797,340	214,492
Amount due to customer on construction contract	18	-	20,499
Current income tax liabilities		10,685	28,676
Borrowings	19	1,358,576	1,252,734
		2,166,601	1,516,401
Total liabilities		2,583,384	1,945,925
Total equity and liabilities		4,263,689	3,756,094

The notes on page 6 to 41 are an integral part of these consolidated accounts.

Director   Director

SHENZHEN NANSHAN POWER STATION CO., LTD.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2005	2004
Sales	21	3,030,682	2,432,712
Other gains - net	21	155,456	111,839
		3,186,138	2,544,551
Fuel costs		(2,555,971)	(1,391,848)
Construction costs		(109,404)	(179,809)
Employee benefit expense	22	(101,981)	(119,611)
Depreciation of properly, 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		(48,505)	(37,505)
Operating profit		99,164	500,311
Finance costs	23	(87,415)	(26,775)
Share of profit of associates		10,650	13,823
Profit before income tax		22,399	487,359
Income tax expense	24	(14,943)	(29,085)
Profit for the year		7,456	458,274
Attributable to:			
Equity holders of the Company		29,919	444,582
Minority interest		(22,463)	13,692
		7,456	458,274
Earnings per share for profit attributable to the equity holders of the Company - basic (expressed in RMB per share)	25	0.05	0.81
Dividends	26	-	273,983

The notes on page 6 to 41 are an integral part of these consolidated accounts.

SHENZHEN NANSHAN POWER STATION CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

		Attributable to equity holders of the Company			Minority interest	Total
	Note	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	2.1	-	-	-	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	2.1	-	(15,056)	-	-	(15,056)
Opening adjustment for adoption of HKFRS 3	2.1	-	-	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

The notes on page 6 to 41 are an integral part of these consolidated accounts.

SHENZHEN NANSHAN POWER STATION CO., LTD.

CONSOLIDATED CASH FLOW STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2005	2004
Cash flows from operating activities			
Cash generated from operations	27	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	27	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

The notes on page 6 to 41 are an integral part of these consolidated accounts.

1 General information

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 and heat, construction of power station and related businesses in the PRC.

The address of the Company's registered office is No.18, Yueliang Wan Road, Nanshan District, Shenzhen, PRC.

These consolidated accounts have been approved for issue by the Board of Directors on 7 April 2006.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These polices have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to consolidated accounts, are disclosed in Note 4.

The adoption of new / revised HKFRS
In 2005, the Group adopted the new / revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures

2 Principal accounting policies (continued)

2.1 Basis of preparation (continued)

HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS Int15	Operating Leases-Incentives
HKFRS 3	Business Combinations

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33 and 36 and HKAS Int15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and 36 and HKAS Int15 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures. The directors regard the PRC government as the ultimate controlling party of the Company, and thus transactions with the enterprises controlled by the PRC government are disclosed.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the land use right is accounted for cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets. It also resulted in the recognition of available-for-sale financial assets at fair value.

The adoption of HKFRS 3 and HKAS 38 results in a change in the accounting policy for negative goodwill. Until 31 December 2004, negative goodwill was:

2 Principal accounting policies (continued)

2.1 Basis of preparation (continued)

- Amortised on a straight-line basis over the remaining weight average useful life of those non-monetary assets of 15 years.
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the HKFRS 3 for the previously recognized negative goodwill:

- The Group ceased amortisation of negative goodwill from 1 January 2005.
- The Group derecognised the carrying amount of negative goodwill at 1 January 2005 with a corresponding adjustment to the opening balance of retained earnings.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions.
- HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations.
- HKAS 39 – does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognized at 1 January 2005.
- HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005.
- HKFRS 3 – prospectively after 1 January 2005.

The adoption of revised HKAS 17 resulted in:

	2005	2004
Decrease in property, plant and equipment	(36,888)	(31,873)
Increase in land use rights	36,888	31,873

The adoption of HKAS 39 resulted in:

	2005	2004
Decrease in non-trading securities	(71,885)	-
Increase in available-for-sale financial assets	53,919	-
Decrease in fair value revaluation reserve	(17,966)	-

2 Principal accounting policies (continued)

2.1 Basis of preparation (continued)

The adoption of HKFRS 3 resulted in:

	2005	2004
Increase in intangible assets	63,512	-
Increase in retrained earnings	63,512	-

There was no impact on profit for the year and earnings per share from the adoption of HKAS 17, HKAS 39 and HKFRS 3.

Standards, interpretations and amendements to published standards that are not yet effective
Certain new standards, amendements and interpretations to existing standards have been published that are mandatory applied for accounting period beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

HKAS 19 (Amendment)	Employee Benefits
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 and HKFRS 6 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7 and HKAS 1 (Amendment)	Financial Instruments: Disclosures and Presentation of Financial Statements – Capital Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Group is in the process of making an assessment of the impact of these new HKFRSs and is not yet in a position to state what impact all these new HKFRSs would have on its results of operations and financial position.

2 Principal accounting policies (continued)

2.2 Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 Principal accounting policies (continued)

2.2 Consolidation (continued)

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2 Principal accounting policies (continued)

2.4 Foreign currency transaction

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Renmibi ("RMB"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

2 Principal accounting policies (continued)

2.5 Property, plant and equipment

Property, plant and equipment (except for construction in progress) is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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.

Depreciation of other property, plant and equipment, comprising leasehold improvements, buildings, motor vehicles, furniture, fixtures and other equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives as follows:

Buildings	20 years
Motor vehicles, furniture, fixtures and other equipment	5 - 10 years
Leasehold improvements	2 - 5 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amounts (Note 2.7).

Construction in progress represents property, plant and equipment 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 property, plant and equipment.

2.6 Intangible assets

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.

2 Principal accounting policies (continued)

2.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.8 Investments

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as non-trading securities and trading securities.

Investments which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, was dealt with in the income statement.

Where there was objective evidence that individual investments were impaired the cumulative loss recorded in the revaluation reserve was taken to the income statement.

The Group has no trading securities.

From 1 January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

2 Principal accounting policies (continued)

2.8 Investments (continued)

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date. During the year, the Group did not hold any investments in this category.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2.10).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

2 Principal accounting policies (continued)

2.8 Investments (continued)

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognized on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement – is removed from equity and recognized in the income statement.

2 Principal accounting policies (continued)

2.9 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. Cost is determined using the weighted average method. Inventories are expensed to fuel costs or repairs and maintenance when used, or capitalised to fixed assets when installed, as appropriate.

2.10 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.12 Construction contracts in progress

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

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognized 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 recognized 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 recognized as an expense immediately.

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

2 Principal accounting policies (continued)

2.13 Share capital

Ordinary shares are classified as equity.

2.14 Borrowing

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 Deferred income tax

Deferred income tax 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 consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are excepted to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

2 Principal accounting policies (continued)

2.16 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 income statement as and when incurred.

Bonus plans

The Group recognizes a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.17 Revenue recognition

Revenue comprises the fair value for the sale of electricity and heat, net of value-added tax. The sale of electricity is recognized when the electricity is transmitted to the supply centre of the customers. The sales of heat is recognized when the steam is delivered.

The recognition of the income from construction contracts is described in Note 2.12.

Interest income is recognized on a time-proportion basis using the effective interest method.

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

Technical consultancy income is recognized on an accruals basis in accordance with the substance of the relevant agreements.

2.18 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the leasor) are expensed in the income statement on a straight-line basis over the periods of the lease.

2 Principal accounting policies (continued)

2.19 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 recognized in the accounts over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the accounts on a straight-line basis over the expected lives of the related assets.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential advance effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group has foreign currency risk as a significant portion of its bank loans are denominated in US dollar ("US$"). Fluctuation of exchange rates of RMB against foreign currencies could affect the Group's results of operation.

(ii) Price risk

Petroleum is the major component of production cost and thus the Group is exposed to commodity price risk. It has not used any commodity futures to hedge its price risk exposure.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Significant portion of the Group's cash are deposited with the major state-owned banks of the PRC.

Each power plant of the Group sells the electricity generated to its sole customer (the provincial or regional grid companies) in the province or region where the power plant is situated. The concentration of customers does not expose the Group to credit risk as these customers are government authorities.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by arranging banking facilities and other external financing.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued of variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates which expose the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3.2 Fair value estimate

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less any estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There have no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5 Segment information

Primary reporting format – business segments

At 31 December 2005, the Group is organised on a localised basis into two main business segments:

a. Sales of electricity and heat
b. Construction of power station and related service

	Sales of electricity and heat		Construction of power station and related service		Unallocated		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Total gross segment sales	2,852,081	2,218,011	227,496	214,701	-	-	3,079,577	2,432,712
Inter-segment sales	-	-	(48,895)	-	-	-	(48,895)	-
Sales	2,852,081	2,218,011	178,601	214,701	-	-	3,030,682	2,432,712
Segment results	58,255	455,887	41,221	40,384	(312)	4,040	99,164	500,311
Finance costs							(87,415)	(26,775)
Share of profits of associates	-	-	-	-	10,650	13,823	10,650	13,823
Profit before income tax							22,399	487,359
Income tax expense							(14,943)	(29,085)
Profit for the year							7,456	458,274
Segment assets	4,163,961	3,695,526	42,537	24,848	31,791	19,184	4,238,289	3,739,558
Interests in associates	-	-	-	-	25,400	16,536	25,400	16,536
Total assets							4,263,689	3,756,094
Segment liabilities	2,558,106	1,880,771	17,921	57,932	7,357	7,222	2,583,384	1,945,925
Capital expenditure	690,448	1,129,501	380	2,826	-	541	690,828	1,132,868
Depreciation	188,514	156,073	330	496	125	9	188,969	156,578
Amortization	12,341	9,507	-	-	-	-	12,341	9,507

5 Segment information (continued)

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, receivables and operating cash. They exclude deferred taxation.

Segment liabilities comparise operating liabilities. They exclude items such as taxation.

Capital expenditure comprises additions to land use rights (Note 6), intangible assets (Note 7), property, plant and equipment (Note 8).

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

6 Land use rights

The Group's interest in land use rights represents prepaid operating lease payments and their net book value are analysed as follows:

	2005	2004
Opening	31,873	8,422
Additions	4,466	24,315
Amortization	(1,839)	(864)
Reversal of impairment	2,388	-
	36,888	31,873

The land occupied by the Group is located in the PRC and the remaining lease periods of land use rights are about 5 to 59 years.

7 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
At 1 January 2004					
Cost	(73,282)	81,900	-	-	8,618
Accumulated amortisation	4,885	(74,548)	-	-	(69,663)
Net book amount	(68,397)	7,352	-	-	(61,045)
Year ended 31 December 2004					
Opening net book amount	(68,397)	7,352	-	-	(61,045)
Additions	-	-	50,000	35	50,035
Amortisation charge	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)
Year ended 31 December 2005					
Opening net book amount, as previously reported	(63,512)	2,162	41,667	30	(19,653)
Impact of adoption of HKFRS 3	63,512	-	-	-	63,512
Opening net book amount, as restated	-	2,162	41,667	30	43,859
Additions	-	-	-	3	3
Amortisation charge	-	(2,162)	(8,333)	(7)	(10,502)
Closing net book amount	-	-	33,334	26	33,360
At 31 December 2005					
Cost	-	81,900	50,000	38	131,938
Accumulated amortisation	-	(81,900)	(16,666)	(12)	(98,578)
Net book amount	-	-	33,334	26	33,360

(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.

In accordance with the HKFRS 3, the Group ceased amortisation of negative goodwill from 1 January 2005 and derecognised the carrying amount of negative goodwill at 1 January 2005 with a corresponding adjustment to the opening balance of retained earnings (Note 2.1).

(b) The amounts were paid to Guandong Guang-dian Power Grid Group Co., Ltd. Shenzhen Power Supply Branch ("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.

7 Intangible assets (continued)

(c) Pursuant to an agreement entered into 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"), which are both the subsidiaries of Zhongshan 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 the period from 27 September 2004, when the new generator facilities started the commercial operation, to 31 December 2009.

8 Property, plant and equipment

	Buildings	Plant and machinery	Motor vehicles, furniture, fixtures and other equipment	Leasehold improvements	Construction in progress	Total
At 1 January 2004						
Cost	96,270	2,162,147	56,048	-	231,976	2,546,441
Accumulated depreciation	(33,707)	(935,605)	(38,695)	-	-	(1,008,007)
Net book amount	62,563	1,226,542	17,353	-	231,976	1,538,434
Year ended 31 December 2004						
Opening net book amount	62,563	1,226,542	17,353	-	231,976	1,538,434
Additions and reclassification	3,925	(2,757)	12,945	-	1,044,405	1,058,518
Transfer	30,276	1,768	9,795	11,352	(53,191)	-
Disposals	-	(14,558)	(3,683)	-	-	(18,241)
Depreciation	(5,072)	(133,281)	(16,215)	(2,010)	-	(156,578)
Closing net book amount	91,692	1,077,714	20,195	9,342	1,223,190	2,422,133
At 31 December 2004						
Cost	130,471	1,942,799	70,467	11,352	1,223,190	3,378,279
Accumulated depreciation	(38,779)	(865,085)	(50,272)	(2,010)	-	(956,146)
Net book amount	91,692	1,077,714	20,195	9,342	1,223,190	2,422,133
Year ended 31 December 2005						
Opening net book amount	91,692	1,077,714	20,195	9,342	1,223,190	2,422,133
Additions	-	33,545	7,505	48	645,261	686,359
Transfer	43,262	989,819	55	-	(1,033,136)	-
Disposals	-	-	(322)	-	-	(322)
Depreciation	(6,660)	(173,755)	(6,409)	(2,145)	-	(188,969)
Closing net book amount	128,294	1,927,323	21,024	7,245	835,315	2,919,201
At 31 December 2005						
Cost	173,733	2,966,163	77,154	11,400	835,315	4,063,765
Accumulated depreciation	(45,439)	(1,038,840)	(56,130)	(4,155)	-	(1,144,564)
Net book amount	128,294	1,927,323	21,024	7,245	835,315	2,919,201

The construction in progress mainly represents new generators under construction as at 31 December 2004 and 2005. Finance cost capitalised in construction in progress is RMB24,852,000 (2004: RMB25,667,000) (Note 23) during the year and the capitalisation rate is 5.33% (2004: 4.7%).

9 Interests in associates

	2005	2004
Beginning of the year	16,536	3,622
Share of associates' results		
- Profit before taxation	12,516	14,015
- Taxation	(1,866)	(192)
- Dividend received from associates	(1,786)	(909)
End of the year	25,400	16,536

As at 31 December 2005, the Group's interest in its associates, both of which are unlisted and operated in the PRC, were as follows:

Name	Registered/ paid up capital	% interest held		Principal activities
		Held directly	Held indirectly	
Shenzhen Server Petrochemical Supplying Co., Ltd. ("Shenzhen Server")	RMB53,300,000	50%	-	Trading of fuel oil
Shenzhen Yueliangwan Renhe Industrial Co., Ltd. ("Yueliangwan Renhe")	RMB12,000,000	-	20%	Management of fuel pipes and trading

10 Available-for sale financial assets

	2005
Unlisted investments	
Reclassified from non-trading securities	71,885
Fair value adjustment on adoption of HKAS 39	(15,056)
Fair value adjustment at end of the year (Note 15)	(2,910)
End of the year	53,919

There were no disposals or impairment provision on available-for-sale financial assets in 2005.

As at 31 December 2005, 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	% interest held	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

11 Inventories

	2005	2004
Fuel oil	277,746	139,894
Spare parts and consumables	152,583	109,515
	430,329	249,409

The cost of inventories recognized as fuel costs, repairs and maintenance and other expenses of the year was RMB2,555,971,000, RMB21,704,000 and RMB1,569,000 (2004: RMB1,391,848,000, RMB78,518,000 and RMB4,769,000) respectively.

12 Trade and other receivables

	2005	2004
Trade receivables	229,231	234,363
Other receivables and prepayments	110,271	106,925
Other tax recoverable	51,193	32,861
Receivables from a related party (Note 29(v))	20,216	18,831
Loans to a related party (Note 29(vii))	37,220	-
	448,131	392,980

The carrying amounts of trade and other receivables approximate their fair value.

13 Cash and cash equivalents

	2005	2004
Cash at bank and in hand	307,525	581,651

14 Share capital

	2005	2004
Registered, issued and fully paid		
Unlisted A shares		
85,538,864 shares held by the State	85,539	85,539
289,015,071 shares held by legal persons	289,015	289,015
Listed A shares		
64,846,135 PRC listed Renminbi shares	64,846	64,846
Listed B shares		
108,565,928 PRC listed foreign 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.

Pursuant to the relevant rules and regulations issued by the PRC authorities, a share segregation reform of the Company (the "Reform Scheme") was approved by the shareholders' meeting on 27 February 2006 and by the relevant government authorities on 20 March 2006.

Under the Reform Scheme, the Unlisted A shares shareholders agreed to offer 2.3474 shares and RMB4.1522 for every 10 shares held by Listed A shares shareholders in exchange for listed A shares shareholders to agree that all the Unlisted A shares be converted into listed shares. The total number of issued shares of the Company remained unchanged after the Reform Scheme while the Unlisted A shares became Listed A shares on 28 March 2006. The Reform Scheme has no financial impact on the Group.

15 Other reserves

	Capital reserve (note (a))	Statutory surplus reserve fund (note (b))	Discretionary surplus reserve fund (note (b))	Public welfare fund (note (c))	Exchange difference reserve	Fair value revaluation reserve (Note 10)	Total
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 from retained earnings to capital reserve	4,885	-	-	-	-	-	4,885
Currency translation differences	-	-	-	-	181	-	181
At 31 December 2004	225,258	281,696	22,749	121,691	813	-	652,207
At 1 January 2005, as previously reported	225,258	281,696	22,749	121,691	813	-	652,207
Adoption of HKAS 39	-	-	-	-	-	(15,056)	(15,056)
Transfer from retained earnings to capital reserve following the adoption of HKFRS 3	63,512	-	-	-	-	-	63,512
At 1 January 2005, as restated	288,770	281,696	22,749	121,691	813	(15,056)	700,663
Revaluation of available-for-sale financial assets	-	-	-	-	-	(2,910)	(2,910)
Capitalisation of statutory surplus reserve fund of a subsidiary	56,350	(56,350)	-	-	-	-	-
Appropriation from retained earnings	-	26,910	-	13,455	-	-	40,365
Currency translation differences	-	-	-	-	(2,211)	-	(2,211)
At 31 December 2005	345,120	252,256	22,749	135,146	(1,398)	(17,966)	735,907

(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; (iii) amounts transferred from retained earnings for income that is not available for distribution in the PRC statutory accounts; and (iv) the transfer-in arising from the capitalisation of statutory surplus reserve fund of a subsidiary.

(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.

16 Retained earnings

	2005	2004
At 1 January, as previously reported	507,963	450,757
Impact of adoption of HKFRS 3 (Note 7)	63,512	-
Transfer from retained earning to capital reserve following the adoption of HKFRS 3	(63,512)	-
At 1 January, as restated	507,963	450,757
Profit attributable to equity holders of the Company	29,919	444,582
Transfer to capital reserve	-	(4,885)
Appropriation to funds	(40,365)	(126,043)
Dividend declared	(273,983)	(256,448)
At 31 December	223,534	507,963

The retained earnings at year end represent:

	2005	2004
A final dividend proposed after year end (Note 26)	-	273,983
Others	223,534	233,980
	223,534	507,963

17 Trade and other payables

	2005	2004
Trade payables	119,186	92,758
Notes payable	586,368	-
Amount due to associates (Note 29(v))	3,037	4,000
Amount due to a related party	-	13,865
Other taxes	3,650	12,912
Accrued expenses	2,193	1,697
Other payables	82,906	89,260
	797,340	214,492

18 Amount due to customer on construction contract

	2005	2004
Contract costs incurred plus attributable profits less foreseeable losses to date	350,002	123,001
Less: progress billings to date	(350,002)	(143,500)
Balance included in current liabilities	-	(20,499)

19 Borrowings

	2005	2004
Non-current		
Bank borrowings		
- wholly repayable within two to five years	416,783	429,524
Current		
Bank borrowings		
- short-term bank loans	1,139,523	1,252,734
- current portion of long-term bank loans	219,053	-
	1,358,576	1,252,734
	1,775,359	1,682,258

The carrying amounts of the borrowings are denominated in the following currencies:

	2005	2004
RMB	1,562,307	1,190,548
US$	213,052	491,710
	1,775,359	1,682,258

19 Borrowings (continued)

The effective interest rates at the balance sheet date were as follows:

	2005		2004	
	RMB	US$	RMB	US$
Bank loans	5.21%	4.60%	4.91%	3.38%

The fair values are based on cash flows discounted using a rate based on the borrowings rate per annum of 5.14% (2004: 4.46%). The carrying amounts of bank borrowings approximate their fair value.

The Group has undrawn borrowing facilities:

	2005	2004
Expiring within one year	1,003,200	75,495
Expiring beyond one year	652,732	1,271,523
	1,655,932	1,347,018

20 Deferred income tax

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

The gross movement on the deferred income tax account is as follows:

	2005	2004
Beginning of the year	9,280	-
Recognized in the income statement (Note 24)	(344)	9,280
End of the year	8,936	9,280

Deferred tax assets:

	Impairment losses		Others		Total	
	2005	2004	2005	2004	2005	2004
At 1 January	4,608	-	4,672	-	9,280	-
Recognized in the income statement	(402)	4,608	58	4,672	(344)	9,280
At 31 December	4,206	4,608	4,730	4,672	8,936	9,280

20 Deferred income tax (continued)

	2005	2004
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	4,123	4,608
- Deferred tax asset to be recovered within 12 months	4,813	4,672
	8,936	9,280

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognize deferred income tax assets of RMB32,985,000 (2004: RMB1,344,000) in respect of losses amounting to RMB219,900,000 (2004: RMB8,960,000) that can be carried forward against future taxable income. Tax losses amounting to RMB8,960,000 (2004: RMB8,960,000) and RMB210,940,000 (2004: nil) expire in 2009 and 2010 respectively.

21 Sales and other gains - net

	2005	2004
Sales		
Sales of electricity	2,815,648	2,218,011
Sales of heat	36,433	-
Revenue from construction of power station	140,601	214,701
Revenue from technical consultancy for the construction of power station	38,000	-
	3,030,682	2,432,712
Other gains - net		
Government grants		
- income tax refunds (note (a))	12,294	51,641
- other subsidies (note (b))	121,271	5,925
Other technical consultancy income (Note 7(c))	14,129	3,720
Interest income	7,762	3,849
Insurance claim	-	38,800
Others	-	7,904
	155,456	111,839
Total	3,186,138	2,544,551

21 Sales and other gains – net (continued)

(a) Pursuant to various circulars issued by the Shenzhen local taxation authority and local government authorities, the Group received refunds in 2005 and 2004 on income tax paid as subsidies for domestic purchase of machineries in 2004 and for the years from 2000 to 2003 respectively. The refunds are recognized upon approval by the relevant authorities.

(b) Pursuant to various circulars issued by Shenzhen Bureau of Trade and Industry, the Group was granted subsidies of a total of RMB118,271,000 (2004: nil) to compensate the increase in petroleum price in 2005.

22 Employee benefit expense

	2005	2004
Wages and salaries	59,887	37,314
Bonuses	21,029	61,998
Retirement scheme contributions (note (a))	9,319	7,043
Allowances and others	12,054	13,712
Bonuses refunded (note (b))	(308)	(456)
	101,981	119,611

(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% (2004: 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 2004, directors and management staff of the Group are required to return all or part of the bonuses received.

23 Finance costs

	2005	2004
Interest on bank borrowings	103,945	52,442
Others	8,322	-
	112,267	52,442
Less: amount capitalised in construction in progress (Note 8)	(24,852)	(25,667)
	87,415	26,775

24 Income tax expense

The amount of taxation charged to the consolidated income statement

	2005	2004
The Group		
Current taxation - PRC income tax	14,599	38,365
Deferred income tax (Note 20)	344	(9,280)
	14,943	29,085

(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 Shenzhen.

(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 related business. 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% (2004: 7.5%) for the year and no income tax was provided for Shennan Engineering for the year (2004: nil).

24 Income tax expense (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of 15% of the Company as follows:

	2005	2004
Profit before income tax	22,399	487,359
Tax calculated at 15%	3,360	73,104
Profit earned in the tax holiday period	(16,563)	(35,522)
Income not subject to tax	(2,379)	(8,616)
Expenses not deductible for tax purposes	308	685
Utilization of previously unrecognized tax losses	(1,424)	(1,910)
Tax losses for which no deferred income tax assets loss recognised	31,641	1,344
Taxation charge	14,943	29,085

25 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB29,919,000 (2004: RMB444,582,000) and the number of shares in issue of 547,966,000 (2004: 547,966,000).

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

26 Dividends

The dividends paid during the year 2005 and 2004 were RMB273,983,000 (RMB0.500 per share) and RMB256,448,000 (RMB0.468 per share), respectively. The directors do not recommend the payment of a dividend for the year ended 31 December 2005.

27 Cash generated from operations

	2005	2004
Profit for the year	7,456	458,274
Adjustments for:		
Income tax expenses	14,943	29,085
Depreciation change	188,969	156,578
Reversal of impairment of land use rights	(2,388)	-
Profit on sales of property, plant and equipment	(42)	(5,363)
Amortisation charge	12,341	9,507
Interest income	(7,762)	(3,849)
Interest expense	87,415	26,775
Share of profit from associates	(10,650)	(13,823)
Changes in working capital (excluding the effects of exchange differences on consolidation)		
Inventories	(180,920)	(99,093)
Trade and other receivables	(23,420)	(72,458)
Trade and other payables and amount due to a customer on construction contract	562,349	39,204
Cash generated from operations	648,291	524,837

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2005	2004
Net book amount	322	18,241
Profit on sale of property, plant and equipment	42	5,363
Receivable received/(receivables)	9,900	(9,900)
Proceeds from sale of property, plant and equipment	10,264	13,704

28 Commitments

(a) Capital commitments for property, plant and equipment

At 31 December 2005, the Group had capital commitments for acquisition and construction of properly, plant and equipment as follows:

	2005	2004
Contracted but not provided for	289,260	956,290

(b) Commitments under operating leases

At 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2005	2004
Not later than one year	6,345	30,191
Later than one year and not later than five years	5,523	8,653
	11,868	38,844

29 Related party transactions

Certain shareholders of the Company are state-controlled enterprises ("SCE") controlled by the PRC government. The PRC government is therefore regarded by the directors as the ultimate controlling party of the Company.

The Company identified the following related parties:

SPSB	Controlled by the Government
Guangdong Guang-dian Power Grid Group Co., Ltd. ("GGPGG")	Controlled by the Government
Shenzhen Petroleum Products Bonded Trading Co., Ltd. ("SPPBT")	Controlled by the Government
Other SCEs	Controlled by the Government
Shenzhen Sever	Associate of the Group
Yueliangwan Renhe	Associate of the Group
Zhongfa Power	Controlled by a minority shareholder
Jiafa Power	Controlled by a minority shareholder

29 Related party transactions (continued)

The following significant transactions were carried out with related parties during the year:

i) Sales of goods and services	2005	2004
Sales of electricity		
SPSB	2,405,786	2,218,011
GGPGG	409,862	-
	2,815,646	2,218,011
Sales of services		
Zhongfa Power	7,065	1,860
Jiafa Power	7,064	1,860
	14,129	3,720
Sales of goods and services to other SCEs	200,101	232,201

ii) Purchases of goods and services:

Purchase of oil		
SPPBT	2,637,048	1,483,646
Purchase of services		
Shenzhen Server - leasing of fuel oil tankers	28,538	38,204
Yueliangwan Renhe - fuel oil transportation fee paid	5,933	6,912
	34,471	45,116
Purchase of goods and services from other SCEs	401,175	898,287
iii) Interest paid on borrowings from state-controlled banks	103,945	52,442

iv) Key management compensation

Salaries and other short-term employee benefits	3,713	4,900

v) Year-end balances arising from sales/purchases of goods and services

Receivables:		
SPSB	195,170	217,470
Zhongfa Power	20,216	18,831
GGPGG	14,571	-
Other SCEs	71,570	122,922

29 Related party transactions (continued)

v) Year-end balances arising from sales/purchases of goods and services (continued)

	2005	2004
Payables:		
SPPBT	672,982	55,067
Other SCEs	75,985	196,098
Shenzhen Sever	3,037	3,190

The amounts are unsecured, interest free and receivable/payable in accordance with normal commercial terms.

vi) Year-end balances of bank deposits and borrowings

Bank deposits with state-controlled banks	303,877	575,201
Bank borrowings from state-controlled banks	1,775,359	1,682,258

v) Loans to Zhongfa Power

Beginning of the year	-	20,000
Loans advanced during the year	67,680	-
Loans repayments received	(30,460)	(20,000)
End of the year (Note 12)	37,220	-

Loans to a related party are unsecured, charged at prevailing bank borrowing rate and for a period less than one year.

30 Subsidiaries

As at 31 December 2005, 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 Held directly	Held indirectly	Principal activities
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	RMB113,850,000	75%	25%	Power generation
Shennandian (Zhongshan) Power Co., Ltd.*	PRC	RMB396,800,000	55%	25%	Power generation
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	US$35,040,000	40%	15%	Power generation (yet to commence operation)

* The local government approval procedures for the projects on the construction of generators by Shennandian (Zhongshan) Power Co., Ltd. and Shennandia (Dongguan) Weimei Power Co., Ltd. have been completed but regarded by state authorities as improper. Applications have been made to the state authorities to rectify with final results pending. The directors of the Company are of the opinion that approval will be obtained from the state authorities within 2006.

SUPPLEMENTARY INFORMATION
(All amounts in Renminbi thousands unless otherwise stated)

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

	Profit attributable to equity holders of the Company for the year ended 31 December 2005	Net assets owned by equity holders of the Company as at 31 December 2005
As per PRC statutory accounts	29,919	1,525,373
Impact of HKFRSs adjustments		
- Revaluation of available-for-sale financial assets	-	(17,966)
As per HKFRSs accounts	29,919	1,507,407

XI. Documents Available for Reference

(I) Accounting statements carried with the signatures and seals of the legal representative, financial principal and accountants.
(II) Original of auditors' report carried with the seal of certified public accountants and signatures and seals of CPA
(III) All original of the Company's documents and original manuscript of notices ever disclosed in Securities Times, China Securities and Ta Kung Pao in the report period.
(V) Annual Report promulgated in overseas newspapers

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