SHENZHEN NANSHAN POWER STATION CO., LTD.

REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2005

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INTERNATIONAL AUDITORS' REPORT TO THE SHAREHOLDERS OF SHENZHEN NANSHAN POWER STATION CO., LTD.
(incorporated as a joint stock limited company in the People's Republic of China)

We have audited the accounts on pages 2 to 41 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and international auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you, 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)

		Year ended 31 December	
	Note	**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.

NOTES TO THE CONSOLIDATED ACCOUNTS
(All amounts in Renminbi thousands unless otherwise stated)

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

(All amounts in Renminbi thousands unless otherwise stated)

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:

(All amounts in Renminbi thousands unless otherwise stated)

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)	-

(All amounts in Renminbi thousands unless otherwise stated)

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.

(All amounts in Renminbi thousands unless otherwise stated)

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

(All amounts in Renminbi thousands unless otherwise stated)

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.

(All amounts in Renminbi thousands unless otherwise stated)

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.

(All amounts in Renminbi thousands unless otherwise stated)

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%).

(All amounts in Renminbi thousands unless otherwise stated)

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

(All amounts in Renminbi thousands unless otherwise stated)

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

(All amounts in Renminbi thousands unless otherwise stated)

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.

(All amounts in Renminbi thousands unless otherwise stated)

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)	
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.

(All amounts in Renminbi thousands unless otherwise stated)

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

(All amounts in Renminbi thousands unless otherwise stated)

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

(All amounts in Renminbi thousands unless otherwise stated)

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

(All amounts in Renminbi thousands unless otherwise stated)

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

(All amounts in Renminbi thousands unless otherwise stated)

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.

(All amounts in Renminbi thousands unless otherwise stated)

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).

(All amounts in Renminbi thousands unless otherwise stated)

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.

(All amounts in Renminbi thousands unless otherwise stated)

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

(All amounts in Renminbi thousands unless otherwise stated)

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

(All amounts in Renminbi thousands unless otherwise stated)

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

(All amounts in Renminbi thousands unless otherwise stated)

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.

(All amounts in Renminbi thousands unless otherwise stated)

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		Principal activities
			Held directly	Held indirectly	
Shennan Energy (Singapore) Pte Ltd.	Singapore	SGD1,500,000	100%	-	Investment holding
Hong Kong Syndisome Co., Limited	Hong Kong	HKD200,000	-	100%	Investment holding
Shenzhen New Power Industrial Co., Ltd.	PRC	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.

SHENZHEN NANSHAN POWER STATION CO., LTD.

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