Short Form of the Stock: Shen Nan Dian A, Shen Nan Dian B Notice No.: 2006-56

Stock code: 000037, 200037

SHENZHEN NANSHAN POWER STATION CO., LTD.
THE THIRD QUARTERLY REPORT FOR 2006

§1. Important Notice

1.1 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 hereby confirm that there are no any important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents.

1.2 No director, supervisor and senior executive state that he or she couldn't ensure the correctness, accuracy and completeness of the contents of the Quarterly Report, or has objection for this report.

1.3 Name list of un-presented directors

Name of directors	Reasons for not attending the Board meeting	Name of entrustee
Huang Sujian	Not present due to business	Yu Xiufeng

1.4 The Financial Statements in the Quarterly Report of the Company has not been audited.

1.5 Chairman of the Board Mr. Wei Wende, General Manager Mr. Fu Bo, Chief Financial Officer Mr. Lu Xiaoping and Director of Financial Department Mr. Chen Xueshun hereby confirm that the Financial Report enclosed in the Third Quarterly Report is true and complete.

§2. Company Profile

2.1 Basic information

Short form of stock	Shen Nan Dian A Shen Nan Dian B	Short form before change (if has)	G Nan Dian
Stock code	000037, 200037		
	Secretary of the Board	**Security Affairs Representative**	
Name	Hu Qin	Hu Qin	
Address	17/F, Hantang Building, OCT, Nan Shan District, Shenzhen, China	17/F, Hantang Building, OCT, Nan Shan District, Shenzhen, China	
Tel	(86)755-26003683	(86)755-26003683	
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Email	investor@nspower.com.cn	investor@nspower.com.cn	

2.2 Financial files

2.2.1 Major accounting data and financial indexes

Unit: RMB'000

Item	At the end of this report period	At the end of the previous year	Increase/decrease (%)
Total assets	5,275,030	4,263,689	23.72
Shareholders' equity (excluding minority shareholders' equity)	1,462,269	1,507,407	-2.99
Net assets per share (RMB)	2.67	2.75	-2.99

	Year-begin to the end of report period	The same period of the previous year	Increase / decrease (%)
Net cash flow arising from operating activities	-623,758	20,029	-3,214.27
Earnings per share (RMB)	-0.083	-0.029	186.21
Return on equity (%)	-3.09	-1.09	Down to 2 percentage

2.2.2 Difference between domestic net profit and overseas net profit

☐Applicable √ Inapplicable

2.2.3 Financial statement

2.2.3.1 Consolidated balance sheet

		Non-audited 2006 September 30 RMB’000	Audited 2005 December 31 RMB’000
Assets	Order		
Non-current assets	1		
Land use right	2	41,461	36,888
Intangible assets	3	34,480	33,360
Property, machine and equipment	4	2,966,761	2,919,201
Equity of associated companies	5	3,171	25,400
Assets of deferred tax	6	8,936	8,936
Fanatical assets available to be sold	8	81,857	53,919
Non-trading securities	9	0	0
	10		
	11	**3,136,667**	**3,077,704**
Current assets	12		
Inventory	13	475,282	430,329
Trade and other account receivable	16	1,225,575	448,131
Bank balance and cash	17	437,507	307,525
	18	2,138,364	1,185,985
Total assets	19	**5,275,030**	**4,263,689**
	20		
Share equity	21		
Share of assets and storage of equity holder of the Company	22		
Dividends	23	547,966	547,966
Other storage	24	735,907	735,907
Remained surplus	25		
The proposed final dividend	26		
Other	27	178,396	223,534
	28	1,462,269	1,507,407

Minority equity	29	192,101	172,898
Total equity	30	1,654,370	1,680,305
	31		
Liability	32		
Non-current liability	33		
Loans	34	392,694	416,783
	35		
Current liability	36		
Trade and other payable	37	1,000,768	797,340
Amount of establishing contract with customer payable	39		
Liability of period income tax	43	7,175	10,685
Loans	45	2,220,023	1,358,576
	46	3,227,966	2,166,601
Total liability	47	3,620,660	2,583,384
Total equity and liability	48	**5,275,030**	**4,263,689**

2.2.3.2 Consolidated income statement

	Non-audited	
	2006	2005
	September 30	September 30
	RMB'000	
Sales	2,754,680	2,274,012
Other income-net	319,703	11,035
	3,074,383	2,285,047
Fuel cost	-2,633,398	-1,882,584
Construction cost	-7,311	-78,821
Employee cost	-67,922	-61,276
Amortization of fixed assets	-140,600	-143,538
Amortization of land use right and intangible assets	-8,579	-9,941
Operative leasing expenses-equipment	-21,123	-23,782
Maintenance expenses	-32,656	-33,472
Other operation cost	-128,986	-24,208
Profit from operation	33,807	27,425

Financing cost	-98,416	-51,329
Share of profit of associated companies	6,680	10,571
Profit before tax	-57,929	-13,333
Income tax cost	-8,575	-12,400
Annual profit	-66,504	-25,733
Attributable to		
Equity holder of the Company	-45,211	-16,122
Minority equity	-21,293	-9,611
	-66,504	-25,733

2.2.3.3 Consolidated cash flow statement

	Non-audited 2006 Jan.-Sep. RMB'000
Cash flow from operation activities	
Cash rising from operation	-624,368
Income tax paid	610
Net cash from operation activities	-623,758
Cash flow from investment activities	
Purchased property, machine & land use right	-269,434
Amount of selling property, machine and equipment	1,919
Intangible assets purchased	
Interest received	3,265
Dividend received	-269,434
Credit – loans of associated companies	
Income tax of loans paid by associated companies	
Net cash from investment activities	-264,250

Income tax of loans	3,063,211
Paying loans	-1,956,833
Interest paid	-95,151
Input assets of minority shareholders	31,308
Dividends paid for shareholders of the Company	-13,162
Net cash rising/using from finance activities	1,029,373
Increase /decrease of net cash	129,980
Cash at the year-begin	307,527
Gains and losses from cash exchange	
Cash at the end of the year	437,507

2.3 Total number of shareholders in the end of the report period and shares held by the top ten shareholders

Total shareholders at the end of report	26,632	
Particulars about shares held by the top ten shareholders of unrestricted shares		
Shareholders' name (full name)	**Number of unrestricted shares held at the period-end**	**Type (A, B, H or other types)**
BNP P P/PANDA INVESTMENT COMPANY LIMITED	56,325,682	B shares
MORGAN STANLEY INT'L (CHINA)-FIRM	25,996,024	B shares
ZHONGSHAN GAOLING INVESTMENT CO., LTD	13,631,636	A shares
CHINAFAMOUSBRAND SECURITIES HOLIDING CO.,LTD	3,659,559	B shares
TOYO SECURITIES ASIA LIMITED-A/C CLIENT.	3,295,223	B shares
NAITO SECURITIES CO., LTD.	2,916,890	B shares
GUOTAI JUNAN SECURIES HONG KONG LIMITED	1,711,909	B shares
ABN AMRO BANK NV	1,179,598	B shares
AIZAWA SECURITIES CO., LTD	1,153,462	B shares
SBCI FINANCE ASIA LTD A/C SBC HONG KONG	999,949	B shares

§3. Discussion and analysis of the management team

3.1 Brief analysis of total status of operating activities in the report period

During the 3rd quarter of the year 2006, prices in the international crude oil futures market (WTA) keep climbing up and have broken a new high of the year totaling USD 79.85 per barrel in August, then dropped down a little but it also remained fluctuation in high position; while the fuel oil price in the Singapore market (FOB) has topped USD330 per ton from

January to September. Under these influences, the proportion of fuel costs taking up the power generation costs of the Company has increased to 90%. The difficulties brought by the high oil price on the Company were not smoothed a lot. Confronted with those situations, on the basis of that the Company summarized strictly the production, operation and management of the first half of this year, and gave detailed analysis to the external market environment the Company faced; the Company continued to conduct the management principles of decreasing losses and striving for gains, got hold of the advantageous chance that the oil price began to slow down and timely adjusted the management plan of production.

1. Power generation

During the 3rd quarter, the subordinate shareholding power generation companies of the Company have stick to the management principle, carried out the activities of "Check each other, assist in each other and learn from each other" and with the topic of safety activities of "Care for safety, care for life", the power plant completed the task of safe production in the quarter. At the same time, heavy-repaired engines of Nanshan Power Plant and Shenzhen New Power Industrial Co., Ltd were restored to work, the operation environment of the Company improved a bit, the power generation increased a lot over the first half of this year. In the reprot period, the Company accomplished power generation volume amounting to 1,782,719,700 kwh, the accumulative power generation volume from January to September amounting to 4,319,765,100 kwh. (For the subsidiaries of grid-connected electravolence for the affiliated powe plan of the Company, please refer to the relevant notices issued by the Company within this year.)

① Nanshan Power Plant and wholly-owned subsidiary Shenzhen New Power Industrial Co., Ltd of the Company completed its generation power in the 3rd quarter amounting to 1,076,217,100 kwh, the accumulative power generation volume from January to September amounting to 2,683,831,600 kwh. The oil alter gas project of the plant was going well, and the plan will be finished at the end of this year.

② Zhongshan Nanlang Power Plant of Shennandian (Zhongshan) Electric Power Co., Ltd completed its power generation in the 3rd quarter amounting to 309,064,600 kwh. the accumulative power generation volume from January to September amounting to 853,529,500 kwh.

③ Dongguan Gaobu Power Plant of Shennandian (Dongguan) Weimei Electric Power Co., Ltd completed its power generation in the 3rd quarter amounting to 397,438,000 kwh. the accumulative power generation volume from January to September amounting to782,404,000 kwh.

2. Aspects not concerning power generation

① Project of combsution engine generation of Shenzhen New Power Industrial Co., Ltd: due to the decrease in the volume of gas using of the heat customer, completed its external gas supply in the 3rd quarter amounting to 79,080 tons, accumulative external gas supply amounting to 290,760 tons.

② Shenzhen Shennan Combustion Engine Engineering &Technology Co., Ltd in the 3rd quarter completed the protections for Dongguan Dongcheng Dongxing Power Plant and Inner Mogolia Sulige Power Plant, and the installation on the natural gas pipeline of the oil alter gas project of Nanshan Power Plant; at the same time, the company actively extend the establishing and services projects in domestic and overseas project of combustion engine.

③ Shenzhen Xiefu Oil Supply Co., Ltd accomplised its sales amount of 350,100 tons in the 3rd quarter.

In the report period, the Company has accomplished the income from main operations amounted to RMB 1,153,842,300, an increase of 51.42% compared with the same period of last year; the cost of main businesses totaled RMB 1,231,192,600, an increase of 50.72% compared with the same period of last year; the profit from main operations was RMB

-79,028,800; the net profit was RMB -5,351,500 and the earnings per share RMB -0.01. During January and September, accomplished accumulative the income from main businesses totaled RMB 2,754,679,900, the cost of main operations totaled RMB 2,985,104,700, the profit from main businesses amounted to RMB -232,651,200, the net profit totaled RMB -45,211,500 and the earnings per share was RMB -0.083.

3.1.1 Particulars about main industries or products taking over 10% of the total amount of income from main operations or profit of main operations

√ Applicable ☐Inapplicable

Unit: RMB'0000

Main operations classified according to industries			
July-September	Income from main operations	Cost of main operations	Gross profit ratio (%)
Production and supply of power, steam and hot water	111, 194. 05	119, 547. 57	−7. 51
Including: related transaction	0.00	0.00	0.00

Unit: RMB'0000

Main operations classified according to products			
July-September	Income from main operations	Cost of main operations	Gross profit ratio (%)
Production of power	109, 230. 65	117, 566. 57	−7. 63
Other	4, 174. 58	3, 344. 46	19. 89
Including: related transaction	0.00	0.00	0.00

3.1.2 Seasonal and periodicity characteristics of the operation

√ Applicable ☐Inapplicable

The purchasing price of the fuel adopted in the production by the Company was influenced by the periodic fluctuation of international oil market. In recent years, the fuel price in international market continuously climbing, and the purchasing cost in oils of the Company remained high. On the basis of the original plan and mass centralized purchasing, the Company actively searched for new oil resource and explored fuel conversion in order to minimize the influence of price fluctuation in the oil market. At the same time, at the end of the third quarter of this year, hit the record high and dropped down of price in international fuel market would bring advantageous influences on the operations of the Company.

3.1.3 Profit formation of the report period (Changes and explanations of reason on profit from main operation, profit from other operation, period expense, investment earnings, subsidy income, net amount of non-operating income and expense, proportion in the total amount of profit over last period)

√ Applicable ☐Inapplicable

Unit: RMB'000

Item	July-Sep.,2006		Jan.-Jun.,2006	
	Amount	Proportion taking up total profit	Amount	Proportion taking up total profit
Profit before tax	-11,022	100%	-46,907	100%
Operating profit	6,901	-62.61%	26,906	-57.36%
Financing cost	-40,610	368.44%	-57,806	123.24%

Divided profit of affiliated company	22,687	-205.83%	-16,007	34.12%

During the report period, the proportion of various items in total profits changed compared with the previous year, and the reason was mainly that the price in the international oil market had continuously increased, resulting in the large-margin decrease of profit from main operation in the report period.

3.1.4 Explanation on material changes of core business and its structure and the reason compared with the previous report period
☐Applicable √ Inapplicable

3.1.5 Explanation on the reason and material change of profitability capability of core business (gross profit ratio) compared with the previous report period
☐Applicable √ Inapplicable

3.2 Analysis and explanation of significant events and their influence and solutions
√ Applicable ☐Inapplicable

1. The controlling subsidiary company Shenzhen Energy Investment Co., Ltd of Shenzhen Energy Group Co., Ltd (hereafter with the short form of Energy Group), the shareholder of the Company, planed to purchase the whole assets of Energy Group through non-public offering, including the 59,187,391 restricted shares directly held by Energy Group, and the 83,748,408 non-listed foreign shares of the Company indirectly held by Hong Kong Nan Hai (International) Limited. For the details, please refer to the relevant notice published on August 25, 2006.
2. In light of the expiration of the term of office of 4th board of directors and 4th supervisory committee of the Company, the Company held the 21st meeting of 4th board of directors and 20th meeting of 4th supervisory committee on Sep. 20, 2006, on which respectively examined and approved the Proposal on Changing the Board of Directors and Proposal on Changing the Supervisory Committee; and will hold the 1st Extraordinary Shareholders' General Meeting dated October 23, 2006 to elect the 5th Board of Directors and 5th Supervisory Committee. For the details, please refer to the relevant notice published dated Sep. 21, 2006.
3. According to the spirits of the 15th meeting of the 4th Board of Directors of the Company, the Company officially sign the Equity Transfer Agreement on Zhongshan Power Supply Co., Ltd and Zhongshan Zhongfa Power Co., Ltd with Zhongshan Power Exploiture Co., Ltd; the Company purchased respective 75% equity of the aforesaid companies held by Zhongshan Power Exploiture Co., Ltd with zero price. For the details, please refer to the relevant notice published dated July 26, 2005.
4. In the report period, the subsidiaries for power generation amounting to RMB 118,646,300 from April to June, 2006 were received from Nanshan Power Plant and wholly-owned subsidiary Shenzhen New Power Industrial Co., Ltd.
5. Pursuant to the jointly-issued Notice on Floating Subsidy of Engine Grid-connected Electrovalence of October in Zhongshan by Zhongshan Price Bureau and Zhongshan Economic and Trade Bureau (ZJ[2006] No.110), from Oct. 1, 2006 to Oct. 31, 2006, grid-connected electrovalence of direct power supply for larger customer was adopted by Zhongshan Nanlang Power Plant of the Company, and it would be supplied subsidiaries in accordance with the cost of fuel price. The grid-connected standard after favored was RMB 0.792 per Kilowatt-Hour (tax included, with the same in the followings), namely minus the extraordinary grid-connected electrovalence, the subsidy was RMB 0.335 per Kilowatt-Hour. For the electrovalence subsidy from Jan. to Sep., 2006 of the plant, please refer to the relevant notices dated May 29, 2006, July 28, 2006 and Sep. 12, 2006.
6. Pursuant to the jointly-issued Notice on Paying the Difference-supplemented Expense of

Peak-load Adjustment for Electric Power Subscription for Tongming and Other Three Power Plants by Dongguan Price Bureau and Dongguan Economic and Trade Bureau, from Jan. to Sep., 2006, the grid-connected power of Gaobu Power Plant of the Company was suppplied subsidy with the standard of RMB 0.283 per Kilowatt-Hour (tax included, with the same in the followings), the electrovalence after favored was RMB 0.74 per Kilowatt-Hour. In addition, from July to August, 2006, pursuant to monthly-issued Notice on Subsidy for Grid-connected Power of Tongming and Other Three Power Plants by Dongguan Price Bureau and Dongguan Economic and Trade Bureau, on the basis of interim electrovalence and difference-supplemented expense amounting to RMB 0.74 per Kilowatt-Hour, the monthly subsidy was RMB 0.07 per Kilowatt-Hour; the electrovalence after favored was RMB 0.81 per Kilowatt-Hour. For the electrovalence subsidy from May to June, 2006 of the plant, please refer to the relevant notices dated June 26, 2006.

Progress of the possession of funds and its payoff
☐Applicable √ Inapplicable

3.3 Particulars about accounting policy, accounting estimation, change of consolidated scope and significant accounting errors and explanation of reasons
☐Applicable √ Inapplicable

3.4 Relevant explanation of the Board of Directors and the Supervisory Committee under the situation of being audited and provided “Qualified opinion”
☐Applicable √ Inapplicable

3.5 Estimation of accumulative net profit from the beginning of the year to the end of next report period to be loss probably or the warning of its material change compared with the corresponding period of the last year and explanation of reason
☐Applicable √ Inapplicable

3.6 Rolling adjustment of annual business plan or budget ever disclosed
☐Applicable √ Inapplicable

3.7 Special commitments and implementations of original non-circulating shareholders in Share Merger Reform
√ Applicable ☐Inapplicable

Full name of shareholder	Special commitments	Implementation of commitments
SHENZHEN GUANGJU ELECTRONIC INVESTMENT CO., LTD.	Since the implementation of plan on Share Merger Reform, the original non-circulating shareholders could not conduct listed exchange or transfer within 12 months; After the stipulated expiration of the aforesaid item, the original non-circulating shareholders 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.	It is implemented strictly according to the commitment.
SHENZHEN ENERGY GROUP CO., LTD.	Since the implementation of plan on Share Merger Reform, the original non-circulating shareholders could not conduct listed exchange or transfer within 12 months; After the stipulated expiration of the	It is implemented strictly according to the commitment.

	aforesaid item, the original non-circulating shareholders 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.	
SHENZHEN STATE POWER SCIENCE AND TECHNOLOGY DEVELOPMENT CO., LTD.	Since the implementation of plan on Share Merger Reform, the original non-circulating shareholders could not conduct listed exchange or transfer within 12 months; After the stipulated expiration of the aforesaid item, the original non-circulating shareholders 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.	It is implemented strictly according to the commitment.

3.8 Explanation on company not entering into the process of the Share Merger Reform ended as the disclosure date of the quarterly report

☐Applicable √Inapplicable

Board of Directors of
Shenzhen Nanshan Power Station Co., Ltd
October 24, 2006