SHENZHEN NANSHAN POWER STATION CO., LTD.

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

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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 consolidated financial statements of Shenzhen Nanshan Power Station Co., Ltd. set out on pages 2 to 39, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Certified Public Accountants

Hong Kong, 16 March 2007

SHENZHEN NANSHAN POWER STATION CO., LTD.

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2006	2005
ASSETS			
Non-current assets			
Land use rights	6	70,045	36,888
Intangible assets	7	25,188	33,360
Property, plant and equipment	8	2,910,064	2,919,201
Interest in associates	9	-	25,400
Deferred income tax assets	19	10,243	8,936
Available-for-sale financial assets	10	61,705	53,919
		3,077,245	3,077,704
Current assets			
Inventories	11	379,643	430,329
Trade and other receivables	12	798,010	448,131
Cash and cash equivalents	13	623,514	307,525
		1,801,167	1,185,985
Total assets		4,878,412	4,263,689
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	547,966	547,966
Other reserves	15	753,240	735,907
Retained earnings	16	275,406	223,534
		1,576,612	1,507,407
Minority interest		207,530	172,898
Total equity		1,784,142	1,680,305
LIABILITIES			
Non-current liabilities			
Bank borrowings	18	321,467	416,783
Current liabilities			
Trade and other payables	17	622,152	797,340
Current income tax liabilities		19,870	10,685
Bank borrowings	18	2,130,781	1,358,576
		2,772,803	2,166,601
Total liabilities		3,094,270	2,583,384
Total equity and liabilities		4,878,412	4,263,689

The notes on page 6 to 39 are an integral part of these consolidated financial statements.

Director Director

SHENZHEN NANSHAN POWER STATION CO., LTD.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2006	2005
Sales	20	3,858,907	3,030,682
Other gains - net	20	507,035	155,456
		4,365,942	3,186,138
Fuel costs		(3,649,876)	(2,555,971)
Construction costs		(205)	(109,404)
Employee benefit expense	21	(115,478)	(101,981)
Depreciation of properly, plant and equipment		(227,565)	(188,969)
Amortisation of land use rights and intangible assets		(12,180)	(12,341)
Operating lease expenses - equipment		(4,335)	(28,538)
Repairs and maintenance expenses		(56,285)	(41,265)
Other operating expenses		(79,768)	(48,505)
Operating profit		220,250	99,164
Finance costs	22	(143,097)	(87,415)
Share of profit of associates		-	10,650
Profit before income tax		77,153	22,399
Income tax expense	23	(19,917)	(14,943)
Profit for the year		57,236	7,456
Attributable to:			
Equity holders of the Company		63,101	29,919
Minority interest		(5,865)	(22,463)
		57,236	7,456
Earnings per share for profit attributable to the equity holders of the Company - basic and diluted (expressed in RMB per share)	24	0.12	0.05

The notes on page 6 to 39 are an integral part of these consolidated financial statements.

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 2005		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
Balance at 1 January 2006		547,966	735,907	223,534	172,898	1,680,305
Dividend relating to 2005		-	-	-	(13,162)	(13,162)
Profit for the year		-	-	63,101	(5,865)	57,236
Revaluation of available-for-sale financial assets		-	7,786	-	-	7,786
Conversion of an associate into subsidiary	9	-	-	-	22,350	22,350
Appropriation from retained earnings		-	11,229	(11,229)	-	-
Capital contribution from minority interest		-	-	-	31,309	31,309
Currency translation differences		-	(1,682)	-	-	(1,682)
Balance at 31 December 2006		547,966	753,240	275,406	207,530	1,784,142

The notes on page 6 to 39 are an integral part of these consolidated financial statements.

SHENZHEN NANSHAN POWER STATION CO., LTD.

CONSOLIDATED CASH FLOW STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2006	2005
Cash flows from operating activities			
Cash (used in)/generated from operations	25	(127,672)	648,291
PRC income tax paid		(12,039)	(32,590)
Net cash (used in)/generated from operating activities		(139,711)	615,701
Cash flows from investing activities			
Purchase of property, plant and equipment and payments for land use rights		(136,338)	(665,973)
Proceeds from sale of property, plant and equipment	25	815	10,264
Purchase of intangible assets		(175)	(3)
Consolidation of a subsidiary		3,083	-
Proceeds from disposal of interest in associates		3,794	-
Dividend received		-	1,786
Interest received		5,251	3,351
Loan to a related party		(33,300)	(67,680)
Loan repayment from a related party		61,100	30,460
Net cash used in investing activities		(95,770)	(687,795)
Cash flows from financing activities			
Proceeds from bank borrowings		3,259,177	2,365,228
Repayment of bank borrowings		(2,582,288)	(2,272,127)
Interest paid		(143,097)	(112,267)
Capital contribution from minority interests		31,309	93,328
Dividend paid to Company's shareholders		(13,162)	(273,983)
Net cash inflow/(used in) from financing activities		551,939	(199,821)
Net increase/(decrease) in cash		316,458	(271,915)
Cash at beginning of the year		307,525	581,651
Exchange loss on cash		(469)	(2,211)
Cash at end of the year		623,514	307,525

The notes on page 6 to 39 are an integral part of these consolidated financial statements.

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, trading of fuel oil 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 financial statements have been approved for issue by the Board of Directors on 16 March 2007.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements 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 financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). This basis of accounting differs in certain respects from that used in the preparation of the Group's PRC statutory financial statements. The PRC statutory financial statements of the Group have been prepared in accordance with accounting principles and financial regulations applicable to the Group in the PRC (the "PRC GAAP"). Appropriate restatements have been made to the PRC statutory financial statements to conform with HKFRS. Differences arising from the restatements are not incorporated in the Group's accounting records.

The consolidated financial statements have been prepared under the historical cost convention. 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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 Principal accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 Amendment - Employee Benefits;
- HKAS 21 Amendment - Net Investment In a Foreign Operation;
- 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 6 - Exploration For and Evaluation of Mineral Resources;
- HKFRS 1 and 6 Amendments - First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC) - Int 4 - Determining Whether an Arrangement Contains a Lease;
- HK(IFRIC) - Int 5 - Rights to Interests Arising From Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC) - Int 6 - Liabilities Arising From Participating In a Specific Market - Waste Electrical and Electronic Equipment.

(b) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standard and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- HKFRS 7 - Financial instruments - Disclosures, and the complementally Amendment to HKAS1 - Presentation of Financial Statement - Capital Disclosure, effective for annual periods beginning on or after 1 January 2007. The Group will apply HKFRS 7 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements;

2 Principal accounting policies (continued)

2.1 Basis of preparation (continued)

- HK(IFRIC) - Int 8 - Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC) - Int 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC) - Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and
- HK(IFRIC) - Int 10 - Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC) - Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC) - Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

(c) Interpretation to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- HK(IRFIC) - Int 7 - Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). HK(IFRIC) - Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC) - Int 7 is not relevant to the Group's operations; and
- HK(IFRIC) - Int 9 - Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC) - Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, HK(IFRIC) - Int 9 is not relevant to the Group's operations.

2 Principal accounting policies (continued)

2.1 Basis of preparation (continued)

The financial statements have been prepared on a going concern basis. As at 31 December 2006, the Group's current liabilities exceeded its current assets by approximately RMB971,636,000. The Group's ability to continue on a going concern basis depends on the success of its future operations in generating cash flows and obtaining the continuation and renewal of the Group's borrowing facilities from banks. The management has prepared projected cash flow information for the twelve-month period from the date of their approval of these financial statements. On the basis of this cash flow information and the borrowing facilities available from banks, the management is confident that the Group has sufficient funds to pay its liabilities when they fall due and to continue its operations for the foreseeable future. As a result, the management believes that it is appropriate for these financial statements to be prepared on a going concern basis.

2.2 Consolidation

The consolidated financial statements include the financial statements 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 recognised directly in the income statement.

2 Principal accounting policies (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

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.

(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 reocognised 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 reocognised in the income statement, and its share of post-acquisition movements in reserves is reocognised 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.

Dilution gains and losses in associates are recognised in the consolidated income statement.

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 financial statements 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 financial statements 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 reocognised 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 reocognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of borrowings are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised 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. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

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.

Depreciation on 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. 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 reocognised 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). Assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. During the year, the Group did not hold any financial assets 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 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).

2 Principal accounting policies (continued)

2.8 Financial assets (continued)

(c) 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 reocognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially reocognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are dereocognised 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 are carried at amortised cost using the effective interest method. 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. Gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are reocognised 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, making maximum use of market inputs and relying as little as possible on equity-specific inputs.

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 as an indicator that 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 reocognised in the income statement – is removed from equity and reocognised 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. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. 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 recognised 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses 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 Principal accounting policies (continued)

2.12 Construction contracts in progress

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

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

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

2.13 Share capital

Ordinary shares are classified as equity.

2.14 Trade payables

Trade payables are recognised initially at afire value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are reocognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is reocognised 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 Principal accounting policies (continued)

2.16 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 reocognised 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.

2.17 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 of the PRC. 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 Principal accounting policies (continued)

2.18 Revenue recognition

Revenue comprises the fair value of the consideration for the sale of electricity and heat in the ordinary course of the Group’s activities, net of value-added tax. The sale of electricity is reocognised when the electricity is transmitted to the supply centre of the customers. The sales of heat is reocognised when the steam is delivered.

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

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

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

2.19 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.

2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

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

2.21 Dividend distribution

Dividend distribution to the Company’s shareholders is reocognised as a liability in the Group’s financial statements 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 foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value 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 mainly operates in the PRC with most of the transactions settled in RMB. It did not have significant exposure to foreign exchange risk in the PRC, except for bank borrowings of RMB178,038,000 (2005: RMB213,052,000) which were denominated in United States dollars ("USD") as at 31 December 2006. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(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.

(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 significant 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.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(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 at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates 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 carrying value less any impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4 Critical accounting estimates and judgments

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

(All amounts in Renminbi thousands unless otherwise stated)

5 Segment information

Primary reporting format – business segments

At 31 December 2006, the Group is organised on a localised basis into three main business segments:

a. Sales of electricity and heat
b. Trading of fuel oil
c. Construction of power station and related service

	Sales of electricity and heat		Trading of fuel oil		Construction of power station and related service and others		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Total segment revenue	3,517,876	2,852,081	2,477,369	-	37,981	227,496	6,033,226	3,079,577
Inter-segment revenue	-	-	(2,165,924)	-	(8,395)	(48,895)	(2,174,319)	(48,895)
Revenue	3,517,876	2,852,081	311,445	-	29,586	178,601	3,858,907	3,030,682
Segment results	183,784	58,255	15,120	(312)	21,346	41,221	220,250	99,164
Finance costs							(143,097)	(87,415)
Share of profits of associates	-	-	-	10,650	-	-	-	10,650
Profit before income tax							77,153	22,399
Income tax expense							(19,917)	(14,943)
Profit for the year							57,236	7,456
Segment assets	4,576,129	4,163,961	252,508	31,791	49,775	42,537	4,878,412	4,238,289
Interests in associates	-	-	-	25,400	-	-	-	25,400
Total assets							4,878,412	4,263,689
Segment liabilities	2,816,831	2,558,106	259,070	7,357	18,369	17,921	3,094,270	2,583,384
Capital expenditure	136,338	690,448	-	-	-	380	136,338	690,828
Depreciation	217,356	188,514	9,883	125	326	330	227,565	188,969
Amortisation	10,600	12,341	1,580	-	-	-	12,180	12,341

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, receivables and cash and cash equivalents. 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).

Secondary reporting format-geographical segments

No geographical segment analysis is presented as all revenues of the Group were generated in the PRC and all assets of the Group are located in the PRC.

(All amounts in Renminbi thousands unless otherwise stated)

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:

	2006	2005
Opening	36,888	31,873
Consolidation of a subsidiary (Note 9)	11,106	-
Other additions	25,884	4,466
Amortisation	(3,833)	(1,839)
Reversal of impairment	-	2,388
	70,045	36,888

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

7 Intangible assets

	Amounts paid for the construction of electricity output facilities	Amounts paid for the construction of generator facilities (note (a))	Software	Total
Opening net book amount	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
Year ended 31 December 2006				
Opening net book amount	-	33,334	26	33,360
Additions	-	-	175	175
Amortisation charge	-	(8,334)	(13)	(8,347)
Closing net book amount	-	25,000	188	25,188
At 31 December 2006				
Cost	-	50,000	213	50,213
Accumulated amortisation	-	(25,000)	(25)	(25,025)
Net book amount	-	25,000	188	25,188

(All amounts in Renminbi thousands unless otherwise stated)

7 Intangible assets (continued)

(a) 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") and 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 2005						
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
Year ended 31 December 2006						
Opening net book amount	128,294	1,927,323	21,024	7,245	835,315	2,919,201
Consolidation of a subsidiary (Note 9)	95,840	6,337	5,673	680	-	108,530
Additions	380	60,153	719	1,173	47,854	110,279
Transfer	73,240	757,241	524	-	(831,005)	-
Disposals	-	-	(381)	-	-	(381)
Depreciation	(17,968)	(196,855)	(8,947)	(3,795)	-	(227,565)
Closing net book amount	279,786	2,554,199	18,612	5,303	52,164	2,910,064
At 31 December 2006						
Cost	400,776	3,797,019	90,236	16,369	52,164	4,356,564
Accumulated depreciation	(120,990)	(1,242,820)	(71,624)	(11,066)	-	(1,446,500)
Net book amount	279,786	2,554,199	18,612	5,303	52,164	2,910,064

(All amounts in Renminbi thousands unless otherwise stated)

8 Property, plant and equipment (continued)

The construction in progress mainly represents new generators under construction as at 31 December 2006. Finance cost capitalised in construction in progress is RMB5,128,000 (2005: RMB24,852,000) (Note 22) during the year and the capitalisation rate is 5.67% (2005: 5.33%).

9 Interests in associates

	2006	2005
Beginning of the year	25,400	16,536
Share of associates' results		
- Profit before taxation	-	12,516
- Taxation	-	(1,866)
- Dividend received from associates	-	(1,786)
Disposal of an associate	(3,171)	-
Conversion of an associate into a subsidiary (note (a))	(22,229)	-
End of the year	-	25,400

As at 31 December 2005, the Group's interests 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
		Directly held	Indirectly held	
Shenzhen Server Petro Chemical Supplying Co., Ltd. ("Shenzhen Server") (note (a))	RMB53,300,000	50%	-	Trading of fuel oil
Shenzhen Yueliangwan Renhe Industrial Co., Ltd. ("Yueliangwan Renhe") (note (b))	RMB12,000,000	-	20%	Management of fuel pipes and trading

(a) During the year, the Company obtained control to govern the financial and operating activities of Shenzhen Server. As a result, Shenzhen Server became a subsidiary of the Company and its financial statements have been consolidated from the date on which control was transferred to the Group.

(b) The equity interest in Yueliangwan Renhe has been disposed of during the year.

(All amounts in Renminbi thousands unless otherwise stated)

10 Available-for sale financial assets

	2006	2005
Unlisted investments:		
Beginning of the year	53,919	-
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)	7,786	(2,910)
End of the year	61,705	53,919

There were no disposals or impairment provision on available-for-sale financial assets in 2006.

As at 31 December 2006, the Group's interests in the following unlisted companies, both of which are incorporated with limited liability and operate in the PRC:

Name	Registered/ paid up capital	% interest held		Principal activities
		Directly held	Indirectly held	
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
Shenzhen Petrochemical Bonded Oil Trading Co., Ltd.	RMB62,500,000	-	4%	Trading of fuel oil

11 Inventories

	2006	2005
Fuel oil	237,269	277,746
Spare parts and consumables	142,374	152,583
	379,643	430,329

The cost of inventories reocognised as fuel costs, repairs and maintenance and other expenses of the year was RMB3,649,876,000 (2005: RMB2,555,971,000), RMB41,326,000 (2005: RMB21,704,000) and RMB4,446,000 (2005: RMB1,569,000), respectively.

(All amounts in Renminbi thousands unless otherwise stated)

12 Trade and other receivables

	2006	2005
Trade receivables	586,884	229,231
- amounts due from related parties (Note 27(v))	547,186	209,741
- amounts due from third parties	39,698	19,490
Other receivables and prepayments	72,397	130,487
- amounts due from related parties (Note 27(v))	34,741	91,786
- amounts due from third parties	37,656	38,701
Other tax recoverable	129,309	51,193
Loans to a related party (Note 27(vii))	9,420	37,220
	798,010	448,131

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

13 Cash and cash equivalents

	2006	2005
Cash at bank and in hand	623,514	307,525

(All amounts in Renminbi thousands unless otherwise stated)

14 Share capital

	Unlisted shares		Listed A shares		Listed B shares		
	Shares held by the State	Shares held by legal persons	Restrictions on trading	No restrictions on trading	Restrictions on trading	No restrictions on trading	Total
At 1 31 December 2005	85,539	289,015	16	64,830	-	108,566	547,966
Reclassification due to share segregation reform (note (a))	(85,539)	(205,266)	228,034	15,218	-	47,553	-
Reclassification of unlisted shares (note (b))	-	(83,749)	-	-	83,749	-	-
31 December 2006	-	-	228,050	80,048	83,749	156,119	547,966

(a) 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. Pursuant to the Reform Scheme, the shareholders of the unlisted A shares agreed to offer 2.3474 shares and RMB4.1522 for every 10 shares held by the shareholders of the listed A shares in exchange for their agreement that all the unlisted A shares be converted into listed shares. The total number of issued shares of the Company remained unchanged and the unlisted shares became listed A shares on 28 March 2006, which are subject to certain restriction on trading for various periods from 28 March 2006. The Reform Scheme has no financial impact on the Group.

(b) According to the circular Shang Zi Pi [2006] No. 890 issued by China Ministry of Commerce and the circular Zheng Jian Gong Si Zi [2006] No. 230 issued by China Securities Regulatory Commission, 83,749,000 shares of foreign legal person shares under unlisted shares have been changed into listed B shares after one year from 20 October 2006, the date of approval.

Pursuant to the Company’s articles of association, all shares are of nominal value of RMB1 each and, except for the denominated currency of dividend, registered ordinary shares with equal rights.

(All amounts in Renminbi thousands unless otherwise stated)

15 Other reserves

	Capital reserve (note (b))	Statutory surplus reserve fund (note (c))	Discretionary surplus reserve fund (note (c))	Public welfare fund (note (d))	Exchange difference reserve	Fair value revaluation reserve (Note 10)	Total
At 1 January 2005	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
At 1 January 2006	345,120	252,256	22,749	135,146	(1,398)	(17,966)	735,907
Revaluation of available-for-sale financial assets (Note 10)	-	-	-	-	-	7,786	7,786
Appropriation from retained earnings	-	11,229	-	-	-	-	11,229
Transfer from public welfare fund to statutory surplus reserve fund	-	135,146	-	(135,146)	-	-	-
Currency translation differences	-	-	-	-	(1,682)	-	(1,682)
At 31 December 2006	345,120	398,631	22,749	-	(3,080)	(10,180)	753,240

(a) Pursuant to the relevant PRC regulations and the articles of association of the Company, profit after tax shall be appropriated according to the following sequence:

(i) make up accumulated losses if any;
(ii) transfer to the statutory surplus reserve at 10% of the profit after tax. When the balance of the statutory surplus reserve reaches 50% of the share capital, additional transfer need not be made;
(iii) transfer to the discretionary surplus reserve at an amount as approved by the shareholders in the Annual General Meeting; and
(iv) distribute as dividends to shareholders as approved by the shareholders in the Annual General Meeting.

The amounts of transfer to the reserve funds shall be determined based on profit after tax reported in the PRC statutory financial statements of the Company prepared in accordance with the PRC GAAP.

(b) 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 financial statements; and (iv) the transfer-in arising from the capitalisation of statutory surplus reserve fund of a subsidiary.

(c) According to relevant PRC regulations, the statutory surplus reserve fund may be applied to make up losses, if any, or to be capitalised for share issue purposes but the remaining amount after the capitalisation issue should not be less than 25% of the registered capital.

(All amounts in Renminbi thousands unless otherwise stated)

15 Other reserves (continued)

(d) Pursuant to the relevant PRC regulations, effective on 1 January 2006, the Company ceased to transfer any amount to public welfare fund. The balance of public welfare fund as at 31 December 2005 has been reclassified to the statutory surplus reserve fund in 2006.

16 Retained earnings

	2006	2005
At 1 January	223,534	507,963
Profit attributable to equity holders of the Company	63,101	29,919
Appropriation to funds	(11,229)	(40,365)
Dividend declared	-	(273,983)
At 31 December	275,406	223,534

17 Trade and other payables

	2006	2005
Trade payables	47,730	32,573
Notes payable	428,543	-
Amount due to associates	-	3,037
Amount due to a related party (Note 27(v))	46,239	748,967
Other taxes payable	922	3,650
Accrued expenses	3,564	2,193
Other payables	95,154	6,920
	622,152	797,340

(All amounts in Renminbi thousands unless otherwise stated)

18 Bank borrowings

	2006	2005
Non-current		
- wholly repayable within two to five years	321,467	416,783
Current		
- short-term bank loans	1,822,670	1,139,523
- current portion of long-term bank loans	308,111	219,053
	2,130,781	1,358,576
	2,452,248	1,775,359

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

	2006	2005
RMB	2,274,210	1,562,307
US$	178,038	213,052
	2,452,248	1,775,359

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

	2006		2005	
	RMB	US$	RMB	US$
Bank loans	5.44%	6.30%	5.21%	4.60%

The fair values are based on cash flows discounted using a rate based on the borrowings rate per annum of 5.67% (2005: 5.14%). The carrying amounts of bank borrowings approximate their fair value.

The Group has the following undrawn borrowing facilities:

	2006	2005
Expiring within one year	1,905,820	1,003,200
Expiring beyond one year	540,020	652,732
	2,445,840	1,655,932

(All amounts in Renminbi thousands unless otherwise stated)

19 Deferred income tax assets

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:

	2006	2005
Beginning of the year	8,936	9,280
Reocognised in the consolidated income statement (Note 23)	1,307	(344)
End of the year	10,243	8,936

Deferred tax assets:

	Impairment losses		Others		Total	
	2006	2005	2006	2005	2006	2005
At 1 January	4,206	4,608	4,730	4,672	8,936	9,280
Reocognised in the consolidated income statement	1,308	(402)	(1)	58	1,307	(344)
At 31 December	5,514	4,206	4,729	4,730	10,243	8,936

	2006	2005
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	5,374	4,123
- Deferred tax asset to be recovered within 12 months	4,869	4,813
	10,243	8,936

Deferred income tax assets are reocognised 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 approximately RMB44,922,000 (2005: RMB32,985,000) in respect of losses amounting to RMB299,482,000 (2005: RMB219,900,000) that can be carried forward against future taxable income. Tax losses amounting to RMB8,960,000 (2005: RMB8,960,000), RMB210,940,000 (2005: RMB210,940,000) and RMB79,582,000 (2005: Nil) will expire in 2009, 2010 and 2011 respectively.

(All amounts in Renminbi thousands unless otherwise stated)

20 Sales and other gains - net

	2006	2005
Sales:		
Sales of electricity	3,425,109	2,815,648
Revenue from trading of oil	311,445	-
Sales of heat	92,767	36,433
Revenue from construction of power stations	23,816	140,601
Revenue from technical consultancy for the construction of power stations	5,770	38,000
	3,858,907	3,030,682
Other gains - net		
Government grants		
- income tax refunds(note (a))	22,840	12,294
- other subsidies (note (b))	449,564	121,271
Other technical consultancy income	-	14,129
Interest income	5,251	7,762
Exchange gain	19,046	-
Others	10,334	-
	507,035	155,456
Total	4,365,942	3,186,138

(a) Pursuant to various circulars issued by the Shenzhen local government authorities, the Group received refunds in 2006 and 2005 on income tax paid as incentives for domestic purchase of machineries for years from 2003 to 2004. The refunds were recognised as other gains upon receipt.

(b) Pursuant to certain circulars issued by Shenzhen Bureau of Trade and Industry, the Group was granted subsidies of RMB449,564,000 (2005: RMB121,271,000) as a compensation for the Group's loss arising from the increase in petroleum price in 2006.

(All amounts in Renminbi thousands unless otherwise stated)

21 Employee benefit expense

	2006	2005
Wages and salaries	67,211	59,887
Bonuses	18,973	21,029
Retirement scheme contributions (note (a))	12,074	9,319
Allowances and others	19,365	12,054
Bonuses refunded (note (b))	(2,145)	(308)
	115,478	101,981

(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% (2005: 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.

22 Finance costs

	2006	2005
Interest on bank borrowings	148,225	103,945
Others	-	8,322
	148,225	112,267
Less: amount capitalised in construction in progress (Note 8)	(5,128)	(24,852)
	143,097	87,415

(All amounts in Renminbi thousands unless otherwise stated)

23 Income tax expense

The amount of taxation charged to the consolidated income statement is as follows:

	2006	2005
The Group		
Current taxation - PRC income tax	21,224	14,599
Deferred income tax (Note 19)	(1,307)	344
	19,917	14,943

(a) The companies comprising the Group 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) Two subsidiaries of the Company, 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 is 2002 and 2004, respectively. The income tax of SNP was provided at the rate of 7.5% (2005: 7.5%) and that of Shennan Engineering was provided at the rate of 7.5% (2005: Nil) for the year.

(c) 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:

	2006	2005
Profit before income tax	77,153	22,399
Tax calculated at 15%	11,573	3,360
Profit earned in the tax holiday period	(2,096)	(16,563)
Income not subject to tax	(4,646)	(2,379)
Expenses not deductible for tax purposes	42	308
Utilization of previously unreocognised tax losses	-	(1,424)
Tax losses for which no deferred income tax assets were recognised	15,044	31,641
Taxation charge	19,917	14,943

(All amounts in Renminbi thousands unless otherwise stated)

24 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to the equity holders of the Company of RMB63,101,000 (2005: RMB29,919,000) and the number of shares in issue of 547,966,000 (2005: 547,966,000).

The Company has no dilutive potential shares.

25 Cash generated from operations

	2006	2005
Profit for the year	57,236	7,456
Adjustments for:		
Income tax expenses	19,917	14,943
Depreciation charge	227,565	188,969
Reversal of impairment of land use rights	-	(2,388)
Profit on sales of property, plant and equipment	(434)	(42)
Profit on disposal of interests in associates	(623)	-
Amortisation charge	12,180	12,341
Interest income	(5,251)	(7,762)
Interest expense	143,097	87,415
Share of profit from associates	-	(10,650)
Changes in working capital (excluding the effects of exchange differences on consolidation)		
Inventories	53,274	(180,920)
Trade and other receivables	(374,119)	(23,420)
Trade and other payables and amount due to a customer on construction contract	(260,514)	562,349
Cash (used in)/generated from operations	(127,672)	648,291

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

	2006	2005
Net book amount	381	322
Profit on sale	434	42
Receivable received	-	9,900
Proceeds from sale	815	10,264

(All amounts in Renminbi thousands unless otherwise stated)

26 Commitments

(a) Capital commitments for property, plant and equipment

At 31 December 2006, the Group had capital commitments for acquisition and construction of properly, plant and equipment as follows:

	2006	2005
Contracted but not provided for	152,430	289,260

(b) Commitments under operating leases

At 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2006	2005
Not later than one year	7,303	6,345
Later than one year and not later than five years	9,280	5,523
Later than five years	70,373	-
	86,956	11,868

27 Related party transactions

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

The Company has identified the following related parties:

Guangdong Guang-dian Power Grid Group Co., Ltd. ("GGPGG")	Controlled by the Government
Guangdong Guang-dian Power Grid Group Co., Ltd. Shenzhen Power Supply Branch ("SPSB")	Controlled by the Government
Shenzhen Petroleum Products Bonded Trading Co., Ltd. ("SPPBT")	Controlled by the Government
Other SCEs	Controlled by the Government
Zhongfa Power	Controlled by the Government
Jiafa Power	Controlled by the Government

(All amounts in Renminbi thousands unless otherwise stated)

27 Related party transactions (continued)

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

i) Sales of goods and services	2006	2005
Sales of electricity		
SPSB	2,056,365	2,405,786
GGPGG	833,601	409,862
	2,889,966	2,815,646
Sales of fuel oil		
Zhongfa Power	83,751	-
Provision for technical consultancy service		
Zhongfa Power	-	7,065
Jiafa Power	-	7,064
	-	14,129

Technical consultancy service fees chargeable to Zhongfa Power and Jiafa Power have not been recongnised for 2006 as the collectibility of the amounts are not ascertained.

	2006	2005
Sales of goods and services to other SCEs	714,740	200,101
ii) Purchases of goods and services:		
Purchase of oil		
Other SCEs	1,361,607	2,637,048
Purchase of goods and services from other SCEs	157,969	401,175
iii) Interest paid on borrowings from state-controlled banks	153,061	103,945
iv) Key management compensation		
Salaries and other employee benefits	3,984	3,713
v) Year-end balances arising from sales/purchases of goods and services		
Trade receivables:		
SPSB	163,756	195,170
Zhongfa Power	70,473	-
GGPGG	94,391	14,571
Other SCEs	218,566	-
	547,186	209,741

(All amounts in Renminbi thousands unless otherwise stated)

27 Related party transactions (continued)

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

	2006	2005
Other receivables:		
Zhongfa Power	24,622	20,216
Other SCEs	10,119	71,570
	34,741	91,786
Payables:		
Other SCEs	46,239	748,967

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	622,227	303,877
Bank borrowings from state-controlled banks	2,560,984	1,775,359

vii) Loans to Zhongfa Power

Beginning of the year	37,220	-
Loans advanced during the year	33,300	67,680
Loans repayments received	(61,100)	(30,460)
End of the year (Note 12)	9,420	37,220

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

(All amounts in Renminbi thousands unless otherwise stated)

28 Subsidiaries

As at 31 December 2006, the Company held interests in the following unlisted subsidiaries, all of which are companies with limited liability:

Name	Place of incorporation and operation	Registered / paid up capital	Attributable equity interest Held directly	Held indirectly	Principal activities
Shennan Energy (Singapore) Pte Ltd.	Singapore	SGD1,500,000	100%	-	Investment holding
Hong Kong Syndisome Co., Limited	Hong Kong	HKD200,000	-	100%	Investment holding
Shenzhen New Power Industrial Co., Ltd.	PRC	RMB113,850,000	75%	25%	Power generation
Shennandian (Zhongshan) Power Co., Ltd.*	PRC	RMB396,800,000	55%	25%	Power generation
Shenzhen Shennan Power Gas Turbine Engineering Technique Co., Ltd.	PRC	RMB10,000,000	60%	-	Technique consulting service for construction of power station and repair service
Shennandian (Dongguan) Weimei Power Co., Ltd.*	PRC	US$35,040,000	40%	15%	Power generation (yet to commence operation)
Shenzhen Server (note 9(a))	PRC	RMB53,300,000	50%	-	Trading of fuel oil
Huidong Server Ports Development Co., Ltd. ("Huidong Server")	PRC	RMB8,620,000	-	83.95%	Provision for ports service

* 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 the Group will be able to obtain the relevant approvals from the state authorities.

SHENZHEN NANSHAN POWER STATION CO., LTD.

SUPPLEMENTARY INFORMATION

(All amounts in Renminbi thousands unless otherwise stated)

The impact of HKFRS adjustments on the PRC statutory financial statements is as follows:

	Profit attributable to equity holders of the Company for the year ended 31 December 2006	Net assets owned by equity holders of the Company as at 31 December 2006
As per PRC statutory financial statements	63,466	1,587,157
Impact of HKFRS adjustments		
- Revaluation of available-for-sale financial assets	-	(10,180)
- Consolidation of Huidong Server	(365)	(365)
As per HKFRS financial statements	63,101	1,576,612