



SHENZHEN NANSHAN POWER STATION CO., LTD.

Annual Report 2004

(Overseas)

No.: 2005-6

March 8, 2005

Important Notes

The Board of Directors of Shenzhen Nanshan Power Station Co., Ltd. (hereinafter referred to as the Company) and its directors individually and collectively accept full responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there is neither any omission of material facts, untrue presentations, nor any misleading statement contained in the information herein.

Independent Director Huang Sujian was absent from the Board meeting personally because he went abroad due to business and authorized Independent Director Zhou Chengxin to attend and exert voting right on his behalf.

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

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

This annual report was prepared in both Chinese and English. Should there be any difference in interpretation of the two versions, the Chinese version shall prevail.

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I. Company Profile

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

2. Legal Representative: Liu deyu

3. Secretary of the Board of Directors: Fu Bo
Tel: (86)755-26003698
Fax: (86)755-26003629
E-mail: fb@nspower.com.cn
Stock & Securities Affairs Representative: Hu Qin
Tel & Fax: (86)755-26003683
E-mail: huqin@nspower.com.cn
Contract Address: 16/F-17/F, Hantang Building, OCT, Nanshan District, Shenzhen, Guangdong

4. Registered Address: No.18, Yueliangwan Avenue, Nanshan District, Shenzhen
Post Code: 518052
Office Address: 16/F-17/F, Hantang Building, OCT, Nanshan District, Shenzhen, Guangdong
Post Code: 518053
E-mail: public@nspower.com.cn

5. Newspapers Designated for Disclosing Information of the Company:
Securities Times, China Securities and Ta Kung Pao
Internet Web Site Designated by China Securities Regulatory Commission for Publishing the Annual Report: <http://www.cninfo.com.cn>
Place Where the Annual Report is Prepared and Placed: Secretariat of the Board

6. Stock Exchange Listed with: Shenzhen Stock Exchange
Short Form of the Stock and Stock Code: Shen Nan Dian A 000037
Shen Nan Dian B 200037

7. Other Relevant Information:
Initial Registration Date: April 6, 1990
Initial Registration Place: Nanshan Jiaozui, Nanshan District, Shenzhen
Registration Place after the Change:
No.18 Yueliangwan Avenue, Nanshan District, Shenzhen (due to change of the road number)
Registered number of the corporate business license for enterprise legal person: QGYSZ Zi. No.101591
Registration Number of Tax.: GTF Zi No.440305930100069 (14)
Names and office addresses of Certified Public Accountants engaged:
Domestic: Guangzhou Yangcheng Certified Public Accountants & Ltd.
Address: 25/F, Jianlibao Building, No.410, Dongfeng Middle Road, Guangzhou,

Guangdong

International: PricewaterhouseCoopers Certified Public Accountants

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

8. Definitions :

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

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

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

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

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

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

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

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

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

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

Jinbiwan Company: Shenzhen Jinbiwan Investment & Development Co., Ltd..

CSRC: China Securities Regulatory Commission.

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

Shenzhen Power Supply Company: Guangdong Guangdong Group Co., Ltd., Shenzhen Power Supply Branch.

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

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

II. Summary of Accounting Highlight and Bussiness Highlight

(I) Major accounting data as of the year 2004

Unit: RMB'000

Items	Amount
Turnover	2,432,712
Operating profit	500,311
Profit before tax	487,551
Profit attributable to shareholders	444,582
Net cash flows arising from operating activities	414,049
Increase of cash and cash equivalent	87,292

(II) Impact on net profit and net assets after adjustment based on International Accounting Standards (Unit: RMB'000)

	Net profit	Net assets
Calculated as per Chinese Accounting Standards	439,697	1,771,648
Adjustment based on International Accounting Standards:		
Negative goodwill arising from purchasing of equity of affiliated company was reclassified to intangible assets from capital reserve and allotted the relevant amortization	4,885	(63,512)
Confirmed as per International Accounting Standards	444,582	1,708,136

Note: In 2004, the reason for the difference amounting to RMB 4,885,000 between domestic consolidated net profit and overseas net profit is as follows:

1. The method of accounting disposal for dividend of RMB 44,852,700 given up by Jinbiwan Company is different. In the accounts calculated based on Chinese Accounting Standard, the Company carried forward net amount amounting to RMB 42,951,100 after deducting enterprise income tax payable totally RMB 1,901,600 from dividend of RMB 44,852,700 given up by Jinbiwan Company into credit of public reserve according to relevant regulation of accounting system in 2003; but in the account calculated based on Hong Kong Accounting Standard, the Company took net amount amounting to RMB 42,951,100 after deducting enterprise income tax payable totally RMB 1,901,600 from dividend of RMB 44,852,700 given up by Jinbiwan Company as Negative Goodwill dividing 15 years into income of each year according to Hong Kong GAAP; the current income transferred-into in 2003 was RMB 2,863,400, while the current income transferred-into in this year was RMB 2,863,400.

2. The method of accounting disposal for the difference amounting to RMB 30,330,800 between the investment cost caused by the Company's purchasing 49% equity of Xindianli Company held by Jinbiwan Company under proportion of shareholder's equity of the invested company the Company should share is different. In the accounts calculated based on Chinese Accounting Standard, the Company transferred the credit difference of equity investment totaling to RMB 30,330,800 as reserve for equity investment into the credit of Public Reserve according to Implementation of Accounting System for Enterprise Business and Answers (II) of Relevant Problems of Related Accounting Rule promulgated by the State Ministry of Finance, but in the account calculated based on Hong Kong Accounting Standard, the Company averagely amortized the credit balance difference of equity investment totaling to RMB 30,330,800 as Negative Goodwill dividing 15 years into income of each year according to Hong Kong GAAP; the current income transferred-into in 2003 was RMB 2,022,100, while the current income transferred-into in this year was RMB 2,022,100.

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

Unit: RMB'000

SHENZHEN NANSHAN POWER STATION CO., LTD.

Item	Capital share	Public reserve	Statutory surplus public reserve	Arbitrary surplus public reserve	Welfare fund	Retained surplus	Reserve of exchange balance	Total shareholders' equity
Jan. 1, 2004	547,966	220,373	197,667	22,749	79,677	450,757	632	1,519,821
Distribution from retained surplus	-	-	84,029	-	42,014	(126,043)	-	-
Exchange balance	-	-	-	-	-	-	181	181
Public reserve carried forward	-	4,885	-	-	-	(4,885)	-	-
Profit as of this year	-	-	-	-	-	444,582	-	444,582
Dividend of last year distributed	-	-	-	-	-	(256,448)	-	(256,448)
Dec. 31, 2004	547,966	225,258	281,696	22,749	121,691	507,963	813	1,708,136

Note: For details, please refer to note 23 and 24 in accounts of Auditor's Report.

III. Changes in Share Capital & Particulars about Shareholders

(I) Changes in share capital

1. Statement of changes in shares (Ended Dec. 31, 2004)

In shares

Items	Before the Changes	Increase/Decrease in the Change (+, -)						After the Change
		Rationed share	Bonus shares	Shares converted from public reserve	Shares issued additionally	Others	Subtotal	
I. Unlisted Shares								
1. Sponsor's shares	312,853,274							312,853,274
Including:								
State-owned shares	85,538,864							85,538,864
Including: State shares	30,829,682							30,829,682
State-owned legal person shares	54,709,182							54,709,182
Domestic legal person shares	113,783,159							113,783,159
Foreign legal person shares	113,531,251							113,531,251
Others								
2. Raised legal person shares	61,700,661							61,700,661
3. Inner employees' shares								
4. Preference shares or others								
Total unlisted shares	374,553,935							374,553,935
II. Listed shares								
1. RMB ordinary shares	64,846,135							64,846,135
2. Domestically listed foreign shares	108,565,928							108,565,928
3. Foreign listed foreign shares								

SHENZHEN NANSHAN POWER STATION CO., LTD.

4. Others							
Total listed shares	173,412,063						173,412,063
III. Total shares	547,965,998						547,965,998

(II) Issuing and listing

1. The Company issued neither any shares nor derived securities over the past three years ended the report period.
2. At present, the Company has no inner employees' shares.

(III) About shareholders

1. At the end of the report period, the Company has totally 25,252 shareholders, including 12,685 shareholders of A shares and 12,567 shareholders of B shares.
2. Shares held by the top ten shareholders (ended Dec. 31, 2004)

Unit: share

Shareholders	Increase/decrease in this report period	Amount at the period-end	Proportion of shares held to share capital (%)	Status of shares	Shares pledged or frozen
SHENZHEN GUANGJU ELECTRONIC INVESTMENT CO., LTD.	0	125,845,702	22.97	Legal person shares	Nil
HONG KONG NAM HOI (INTERNATIONAL) LIMITED	0	83,748,408	15.28	Foreign legal person shares	Nil
SHENZHEN ENERGY GROUP CO., LTD.	0	62,697,297	11.44	Legal person shares	Nil
SHENZHEN STATE POWER SCIENCE AND TECHNOLOGY DEVELOPMENT CO., LTD.	0	54,709,180	9.98	Legal person shares	Nil
TENGDA PROPERTY CO., LTD.	0	47,553,343	8.68	Foreign legal person shares	Nil
MORGAN STANLEY INT'L (CHINA)-FIRM	Unclear	9,832,708	1.79	B Shares	Unknown
SKANDIA GLOBAL FUNDS PLC	+2,185,670	4,741,041	0.87	B Shares	Unknown
NATIONAL SOCIAL INSURANCE FUND 101 PORTFOLIO	+1,005,933	3,189,431	0.58	A Shares	Unknown
AGRICULTURAL BANK OF CHINA-CHANGSHENG DEVELOPMENTS WELL-CHOSEN SECURITIES INVESTMENT FUND	Unclear	3,094,151	0.56	A Shares	Unknown
INDUSTRIAL AND COMMERCIAL BANK OF	Unclear	2,933,406	0.54	A Shares	Unknown

CHINA - GUOLLIAN ANDERSON SMALL WELL-CHOSEN SECURITIES INVESTMENT FUND					
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Notes:

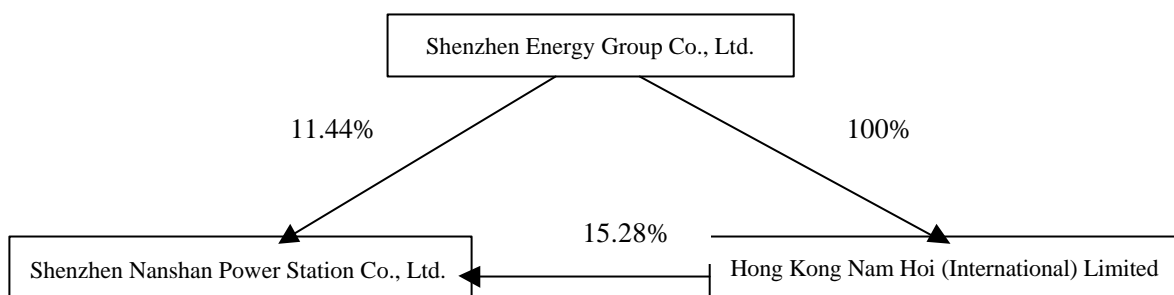
(1) Shenzhen Energy Group Co., Ltd. holds 30,829,682 shares on behalf of the State.

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

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

3. About the controlling shareholder

The Company has no holding shareholder. Shenzhen Energy Group Co., Ltd. is the actual largest shareholder of the Company, its legal representative is Gao Zimin; date of foundation: July 15, 1985, registered capital: RMB 955,555,556; enterprise type: company with limited liability; business scope: development, production and purchase and sale of conventionality energy (including electricity, heat, coal, oil and gas) and new energy; design, construction, management and operation of various energy project; facility and its fittings, equipments, aluminum, timber and cement and other raw materials demanded by energy project; operation of import and export business (transacted according to SMGSZ Zi No. 147 document); operating personnel training, consultation prepared for energy projects and other relevant service business (specific projects subject to approval by the authority); technology development, transfer and service of environments protection; investing and operating transportation business (highway, littoral and oceanic) of fuel, raw material and equipment demanded by energy projects, management of property (operated by property management qualification certificate), lease of owned property.



4. Other shareholders of legal person share holding over 10% of the company's total shares

(1) Shenzhen Guangju Electronic Investment Co., Ltd. holds 22.97% of the Company's total shares; legal representative: Zhong Chengli; date of foundation: May 31, 1989; registered capital: RMB 11.11 million; enterprise type: company with

limited liability; business scope: initiating industrial enterprises and investment of electric power (specific projects subject to approval by the authority).

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

5. Particulars about the top ten shareholders of A-share (Ended Dec. 31, 2004)

Unit: share

Shareholders' name	Holding shares at the period-end (share)
NATIONAL SOCIAL INSURANCE FUND 101 PORTFOLIO	3,189,431
AGRICULTURAL BANK OF CHINA-CHANGSHENG DEVELOPMENTS WELL-CHOSEN SECURITIES INVESTMENT FUND	3,094,151
INDUSTRIAL AND COMMERCIAL BANK OF CHINA - GUOLIAN ANDERSON SMALL WELL-CHOSEN SECURITIES INVESTMENT FUND	2,933,406
INDUSTRIAL AND COMMERCIAL BANK OF CHINA - PUFENG SECURITIES INVESTMENT FUND	1,820,187
CHINA EVERBRIGHT BANK CO., LTD.- JUTIAN BASE TRADE SECURITIES INVESTMENT FUND	1,494,730
COMMUNICATION BANK - GOLD EAGLE MIDDLE & SMALL WELL-CHOSEN SECURITIES INVESTMENT FUND	1,230,000
TONGYI SECURITIES INVESTMENT FUND	943,479
ZHOU RONG GUANG	814,100
CONG LI XIA	610,700
JINDING SECURITIES INVESTMENT FUND	521,000

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

6. Particulars about the top ten shareholders of B-share (Ended Dec. 31, 2004)

Unit: share

Shareholders' name	Holding shares at the period-end (share)
MORGAN STANLEY INT'L (CHINA)-FIRM	9,832,708
SKANDIA GLOBAL FUNDS PLC	4,741,041
CHINA SOUTHERN SECURITIES (HONG KONG) LIMITED	2,798,684
DEUTSCHE BANK AG LONDON	2,315,376
TOYO SECURITIES ASIA LIMITED-A/C CLIENT	2,252,215
NEITENG SECURITIES CO., LTD.	2,135,864
CHINA SECURITIES ADVISOR LIMITED	1,693,106
GUOTAL JUNAN SECURIES HONG KONG LIMITED	1,147,009
HARVEST CHINA EQUITIES INVESTMENT COMPANY LIMITED	800,010

HSBC BROKING SECURITIES (ASIA) LIMITED-CLIENTS A/C	780,438
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Note: By the end of the report period, The Company was unknown whether there exists associated relationship or consistent action among the top ten shareholders of B-share.

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

(I) Directors, supervisors and senior executives in the report period

1. Directors

Names	Titles	Sex	Age	Office Term	Holding shares at the year-begin	Holding shares at the year-end	Reason for change
Liu Deyu	Chairman of the Board	Male	58	Jun. 2003- Dec. 2004	0	0	
Wang Jianbin	Vice Chairman of the Board	Male	41	Jun. 2003- Jun. 2006	0	0	
Cui Jichun	Vice Chairman of the Board	Male	48	Jun. 2003- Jun. 2006	0	0	
Zhang Renyi	Director, GM	Male	44	Jun. 2003- Dec. 2004	0	0	
Yu Chunling	Director	Female	39	Jun. 2003- Jun. 2006	0	0	
Li Li	Director	Male	61	Jun. 2003- Jun. 2006	0	0	
Zhao Xiao	Director	Male	59	Jun. 2003- Jun. 2006	0	0	
Zhong Chengli	Director	Male	57	Jun. 2003- Jun. 2006	0	0	
Sun Yulin	Director	Male	53	Jun. 2003- Jun. 2006	0	0	
Huang Sujian	Independent Director	Male	49	Jun. 2003- Jun. 2006	0	0	
Liu Zhanjun	Independent Director	Male	46	Jun. 2003- Jun. 2006	0	0	
Zhou Chengxin	Independent Director	Male	49	Jun. 2003- Jun. 2006	0	0	
Xu Jing'an	Independent Director	Male	63	Sep. 2004- Jun. 2006	0	0	
Yu Xiufeng	Independent Director	Male	40	Nov. 2004- Jun. 2006	0	0	

2. Supervisor

SHENZHEN NANSHAN POWER STATION CO., LTD.

Names	Titles	Sex	Age	Office Term	Holding shares at the year-begin	Holding shares at the year-end	Reason for change
Zhu Tianfa	Chairman of the Supervisory Committee	Male	55	Jun. 2003- Jun. 2006	0	0	
Ji Ming	Supervisor	Male	48	Jun. 2003- Jun. 2006	0	0	
Zhou Qun	Supervisor	Male	40	Jun. 2003- Jun. 2006	0	0	
He Yingyi	Supervisor	Male	48	Jun. 2003- Jun. 2006	0	0	
Li Yongsheng	Supervisor	Male	32	Jun. 2003- Jun. 2006	0	0	
Wang Rendong	Employee Supervisor	Male	43	Jun. 2003- Jun. 2006	0	0	
Xu Shichun	Employee Supervisor	Male	53	Jun. 2003- Jun. 2006	0	0	

3. Senior Executive

Names	Titles	Sex	Age	Office Term	Holding shares at the year-begin	Holding shares at the year-end	Reason for change
Zhang Renyi	Director, GM	Male	44	Jun. 2003- Dec. 2004	0	0	
Fu Bo	Deputy GM, Secretary of the Board	Male	42	Jun. 2003- Jun. 2006	0	0	
Zhu Wei	Deputy GM	Male	47	Aug. 2003- Jun. 2006	0	0	
Lin Qing	Deputy GM	Female	40	Oct. 2003- Jun. 2006	0	0	
Lu Xiaoping	CFO	Male	42	Aug. 2003- Jun. 2006	0	0	
Sun Shoulin	Chief Engineer	Male	58	Aug. 2003- Jun. 2006	0	16,301	Purchasing from the secondary market

4. Particulars about holding the post in Shareholding Company

Name	Name of Shareholding Company	Title in Shareholding Company	Drawing the payment (Yes / No)
Liu Deyu	Shenzhen Energy Group Co., Ltd.	Deputy General Manager	Nov. 1997 to now
Wang Jianbin	Shenzhen Guangju Electronic Investment Co., Ltd.	Chairman of the Board	Feb. 1999 to now

Cui Jichun	Shenzhen State Power Science And Technology Development Co., Ltd.	Chairman of the Board General Manager	July 2003 to now Apr. 2001 to now
Yu Chunling	Shenzhen Energy Group Co., Ltd.	Head of Planning & Development Dept.	Apr. 2003 to now
Li Li	Tengda Property Co., Ltd.	Chairman of the Board	1992 to now
Zhao Xiao	Shenzhen Energy Group Co., Ltd.	Chief Engineer	Nov. 2001 to now
Zhong Chengli	Shenzhen Guangju Electronic Investment Co., Ltd.	Chairman of the Board	Sep. 2000 to now
Sun Yulin	Shenzhen State Power Science And Technology Development Co., Ltd.	Deputy General Manager	Dec. 1999 to now
Zhu Tianfa	Shenzhen Energy Group Co., Ltd.	Chief Accountant	Nov. 2001 to now
Ji Ming	Shenzhen Guangju Electronic Investment Co., Ltd.	General Manager	Sep. 2000 to now
Zhou Qun	Shenzhen Energy Group Co., Ltd.	Assistant General Manager and Director of General Office	Mar. 2003 to now
He Yingyi	Shenzhen State Power Science And Technology Development Co., Ltd.	Manage of Market Dept.	Apr. 2000 to now
Li Yongsheng	Tengda Property Co., Ltd.	Manager	1994 to now

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

(1) Director

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

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

Mr. Cui Jichun, Vice Chairman of the Board, Prof. Senior Engineer, graduated from

North China Electric Power University with major of energy power engineering of Power Station with Bachelor degree. From 1982 to Aug. 2000, he successfully took the posts of cadre of production department of ministry of water and electricity/ministry of electricity, deputy division chief of safety environment protection department of energy ministry, deputy factory director of Shenyang Power Station, division chief of safety production department of ministry of electricity and deputy general manager of Longyuan Power Group Company and etc.. From Aug. 2000, he took the posts of deputy general manager and member of party leadership group of Shenzhen State Power Science and Technology Development Co., Ltd., and deputy director of the State Power Corporation Economy Development Liaison Office in Shenzhen. Now he took the posts of Chairman of the Board, general manager, secretary of party leadership group of Shenzhen State Power Science and Technology Development Co., Ltd., and director of the State Power Network Corporation Economy Development Liaison Office.

Mr. Fu Bo, Director, Lector, graduated from Xi'an Air Force Engineering University with major of aeroengine. From 1984 to 1993, he took the post of lector of air machinery engineering department of Xi'an Air Force Engineering University. From Aug. 1993, he successfully took the posts of secretary of general manager, deputy director, director and deputy general manager of general office; from June 1997 to now, he took the post of secretary of the Board of the Company; he took the posts of Chairman of the Board of Shennandian (Zhongshan) since Nov. He took the post of deputy general manager of the Company since Jul.2000,2003, and concurrently took director of Shennan Energy (Singapore) Co., Ltd and Xingdesheng Company and Energy Environment Protection Company. He took the posts of director and general manager of the Company since Jan. 19, 2005.

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

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

Mr. Zhong Chengli, Director, Engineer, graduated from chemistry department of Hefei University of Technology. From 1989 to 1999, he successfully took the posts of assistant general manager, director, deputy general manager, secretary of party

committee, secretary of committee of discipline inspection of Shenzhen Shennan Petroleum (Group) Co., Ltd.. Now he acts as director, general manager, vice secretary of party committee of Shenzhen Guangju Energy Co., Ltd. and Chairman of the Board of Shenzhen Guangju Electronic Investment Co., Ltd..

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

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

Mr. Huang Sujian, Independent Director, Doctor and Researcher of Graduate School, the Chinese Academy of Social Sciences, graduated from Xiamen University with major of accounting with Bachelor degree and industry economy with Master degree, he went to U.S.A TUFTS UNIVERSITY FLETCHER LAW AND DIPLOMATISM COLLEGE for advanced studies as visiting scholar after obtaining Doctor degree of industry economy department of Chinese Academy of Social Sciences in 1988. He was engaged in 14-year research work in Institute of Industry Economy, the Chinese Academy of Social Sciences; he now acts as deputy president of the said institute, president of China Enterprise Management Association and tutor of a Ph.D. student Institute of Industry Economy, the Chinese Academy of Social Sciences.

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

Mr. Zhou Chengxin, Independent Director, Juris, graduated from of law department of

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

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

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

(2) Supervisor

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

Mr. Ji Ming, Supervisor, Master degree of Management, Engineer, graduated from Changchun Institute of Optics and Fine Mechanics and Fudan University. From 1994

to 1999, he successfully took the posts of manager of investment department of Shenzhen Shennan Petroleum (Group) Co., Ltd.. Now he acts as deputy general manager of Shenzhen Guangju Energy Co., Ltd. and general manager of Shenzhen Guangju Electronic Investment Co., Ltd..

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

Mr. He Yingyi, Supervisor, Economist, Bachelor degree of law, graduated from Hebei University with major of economic management. He ever worked in the Power Station of the No. 53 Train of Electrical Business Bureau of Ministry of Water and Electricity, Zhejiang Zhenhai Power Plant and Zhejiang Beilun Power Plant, and successfully took the posts of director of branch plant, deputy factory director in charge of business. He now acts as manager of market dept. of Shenzhen State Power Science And Technology Development Co., Ltd..

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

Mr. Wang Rendong, Employee Supervisor, Master degree, graduated from Huazhong University of Science and Technology. He successfully took the posts of Head of Development Dept., Head of Engineering Dept. and deputy chief engineer of the Company since 1990. He now took the post of assistant general manager of the Company, director general manager of Engineering Company and director of Shennandian (Dongguan) Company.

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

(3) Senior executive

Mr. Fu Bo, Director General Manager. For details, please refer to resume of Director.

Ms. Lin Qing, Deputy General Manager, Senior Engineer, Master degree, graduated

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

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

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

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

3. Annual remuneration

(1) In the report year, the annual salary received by senior executive is composed the wages (the position wage, floating wage and subsidy) and the year-end rewards. The wages were paid on monthly according to the position function decided by the Board; the year-end rewards were determined based on the annual checking targets and reward plan decided by the Board at the year beginning, and distributed based on the fulfillment of the targets and personal checking cases.

(2) In the report period, the Company has 25 directors, supervisors and senior executives in total. Of them, 6 senior executives (including 1 inner director) and 2 employee supervisors received their remuneration from the Company with amounting to RMB 4.9 million (after tax, the same below), including one enjoyed the remuneration between RMB 900,000 and RMB 950,000, five enjoyed the remuneration between RMB 800,000 and RMB 850,000 respectively, one enjoyed the remuneration between RMB 650,000 and RMB 700,000 respectively and one enjoyed the remuneration between RMB 400,000 and RMB 450,000. The total remuneration

of the top three directors drawing highest remuneration was RMB 1.15 million; and the total remuneration of the top three senior executives drawing highest remuneration was RMB 2.6 million.

The Company's directors or supervisors drew the allowance according to the relevant provisions of the Provisional Measure on Management of Special Funds of the Board approved by the Shareholders' General Meeting.

The Company paid the allowance of RMB 100,000 (tax excluded) to every independent director in the course of taking position. The Company took the relevant fees such as traffic cost, boarding cost, researching cost and studying cost occurred due to work.

Director of the Company, namely Wei Wende, Wang Jianbin, Cui Jichun, Yu Chunling, Zhao Xiao, Zhong Chengli, Sun Yulin, Li Li, Huang Sujian, Liu Zhanjun, Zhou Chengxin, Xu Jing'an, Yu Xiufeng received no pay from the Company, of them, Wei Wende, Wang Jianbin, Cui Jichun, Yu Chunling, Zhao Xiao, Zhong Chengli, Sun Yulin, Li Li drew their remuneration from the Shareholding Company; Supervisor of the Company, namely Zhu Tianfa, Ji Ming, He Yingyi, Zhou Qun and Li Yongsheng received no pay from the Company, but all of them drew their remuneration from the Shareholding Company.

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

(1) The Company held the 7th meeting of the 4th Board of Directors on Mar. 14, 2004, in which agreed Liu Aiqun to resign from the post of independent director due to the expiration of his office term. The said resolution was published on the designated newspapers dated Mar. 17, 2004.

(2) The Company held the 9th meeting of the 4th Board of Directors on Aug. 1, 2004, in which examined and approved the proposal on electing Mr. Xu Jing'an as Independent Director Candidate of the Company. The proposal was examined and approved by the 1st Extraordinary Shareholders' General Meeting for 2004 held on Sep. 3, 2004. The said resolution was published on the designated newspapers dated Aug. 4, 2004 and Sep. 4, 2004.

(3) The Company held the extraordinary meeting of the 4th Board of Directors on Oct. 27, 2004, in which examined and approved the proposal on electing Mr. Yu Xiufeng as Independent Director Candidate of the Company. The proposal was examined and approved by the 3rd Extraordinary Shareholders' General Meeting for 2004 held on Nov. 29, 2004. The said resolution was published on the designated newspapers dated Oct. 29, 2004 and Nov. 30, 2004.

(4) The Company held the extraordinary meeting of the 4th Board of Directors on Dec. 27, 2004, according to the letter from Shenzhen Energy Group Co., Ltd., shareholder of the Company, the meeting examined and approved Mr. Liu Deyu to resign from the posts of Chairman of the Board and Director due to work reason, and agreed Mr. Zhang Renyi to resign from the posts of Director and General Manager, and unanimously agreed to elect Mr. Wei Wende and Mr. Fu Bo as Director of the 4th Board of Directors of the Company. The proposals has been examined and approved

by the 1st Extraordinary Shareholders' General Meeting for 2005. The said resolution was published on the designated newspapers dated Dec. 18, 2004.

(II) Employees

Ended Dec. 31, 2004, the Company had totally 403 employees registered in the book, (excluding shareholding subsidiaries), up 11.94% over the previous year. Of them, 121 are personnel engaged in equipment operation, 84 are personnel engaged in equipment overhauling, 14 are personnel engaged in material supply, 20 are financial personnel and 42 are administrative and managerial personnel; education degree: 118 persons hold college degree, 97 hold bachelor degree and 20 hold masters degree.

As the Company has implemented Shenzhen social insurance system, the Company did not have to pay any expenses to the retired staff.

V. Administrative Structure

(I) Company Administration

In accordance with the requirements of the relevant laws and regulations such as Company Law, Securities Laws, Administration Rules for Listed Companies and Guidelines Opinion on Establishing Independent Director in Listed Companies and Rules for Listing of Share in Shenzhen Stock Exchange (2004 Revision), through establishing and perfecting various internal control systems continually, including amending Articles of Association of the Company and rules of procedure of "Three Meetings" in time, the Company further defined and standardized duties, rights and obligation of "Three Meetings"; the Company's "Three Meetings" could independently fulfill their duties in line with the regulations of the relevant laws and rules; additionally, the Company also established the Detailed Rules for Salary and Checking Committee of the Board of Directors, and set up the Board's Salary Committee and Checking Committee. In 2005, the Board of Directors will set up Strategic Committee, Investment Committee and Auditing Committee timely in order to further perfect the Company's administrative structure, and formed scientific decision-making mechanism and supervision mechanism step by step. The Company won the third place in 2004 Annual Asia "The Best Company Administration" announced in famous financial journal "Asiamoney" in China Area, and obtained the high-affirmation from domestic and overseas investors in "Company Administration".

(II) Performance of Independent Directors

In the report period, as examined and approved by the 1st Extraordinary Shareholders' General Meeting for 2004 and the 3rd Extraordinary Shareholders' General Meeting for 2004, the Company additionally engaged two independent directors so that the number of independent directors reached to 5 persons, taking 1/3 of the total directors of the Board. The independent directors engaged newly actively attended the training of independent directors, and studied the relevant rules such as Company Law and Articles of Association of the Company, and deeply understood the standards and duties of independent directors.

The Company's independent directors did not propose the objection on proposals examined by all meetings of the Board held in 2004 and other matters. Independent directors carefully checked significant related transaction and other significant events,

which independent directors need to express independent opinion, and issued written opinion letter of independent director.

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

Name of independent directors	Times that should be attend the Board meeting	Times of personal presence	Times of commission presence	Times of absence	Remark
Liu Aiqun	4	3	0	1	
Huang Sujian	7	4	3	0	
Liu Zhanjun	7	6	1	0	
Zhou Chengxin	7	7	0	0	
Xu Jingan	3	3	0	0	
Yu Xiufeng	1	1	0	0	

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

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

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

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

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

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

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

In the report period, the Company still adopted the achievements evaluation and encouragement mechanism for senior executives based on the operation performances. The achievements evaluation for 2004 is still in progress. Pursuant to the principles of law and regulations, the Company is actively exploring standardized, scientific and effective long-term encouragement mechanism with business manager and key talents continually.

(V) Management of investor relationship

In the report period, the Company actively strengthened the management of investor relationship, answered the consultation phone and replied to E-mail of investors from the Internet in time, set down the Management System of Investor's Relationship, and established "Exchange Flat of Investor Relationship" (website: <http://irm.p5w.net/000037/index.html>) through Shenzhen Securities Information Co., Ltd.; the Company held the first Introduction Meeting of outstanding achievement since the Company listed, and held the 2004 Strategic Seminar at the end of 2004; the Company continually improved on and enhanced the quality of information disclosure, at the same time, it still strengthened the initiative of information disclosure, guaranteed that the relevant information of the Company could provide to the vast investors timely, truly and completely; while conveying the Company's operation development stratagem, the Company still carefully heard investor's thinking, drew on the wisdom of the masses, realized the situation of exchange between the Company and investors, and improved the Company's popularity through a series of effective measures.

VI. Brief of the Shareholders' General Meeting

In the report period, the Company held 2003 annual shareholders' general meeting and three extraordinary shareholders' general meetings. The meetings were summarized as follows:

(I) 2003 Shareholders' General Meeting:

The Company published the notification on holding 2003 Shareholders' General Meeting on the designated newspapers dated Mar. 17, 2004. The said shareholders' general meeting was held at Teweili Hall on 3/F of Crowne Plaza Hotels-Resorts, OCT, Shenzhen on Apr. 21, 2004. 13 shareholders and shareholder's proxies attended the 2003 Annual Shareholders' General Meeting, representing 378,697,310 shares, taking 69.11% of the Company's total voting shares, including 244,683,279 domestic shares and 134,014,031 foreign shares, which was in compliance with the relevant regulations of Company Law and the Articles of Association of the Company. The meeting examined and approved the following proposals by disclosed ballot:

1. Work Report 2003 of the Board of Directors;
2. Work Report 2003 of the Supervisory Committee;
3. Financial Settlement Report 2003;
4. Preplan of 2003 Profit Distribution and Transferring Public Reserve into Share Capital;

The plan of profit distribution 2003: distribute cash dividend at the rate of RMB 4.68 (tax included) for every 10 shares to the whole shareholders (the total share capital amounting to 547,965,998 shares). The remains shall be carried down to next year.

The report year, the public reserve shall not be transferred into share capital.

5. Proposal on Authorization Matters on Line of Credit and External Guarantees in

2004;

6. Proposal on Paying the Remuneration to the Company's Domestic Auditor, Guangzhou Yangcheng Certified Public Accountants in 2003;
7. Proposal on Paying the Remuneration to the Company's International Auditor, PricewaterhouseCoopers Certified Public Accountants in 2003;
8. Proposal on Engaging the Domestic Auditors for the Year 2004;
9. Proposal on Engaging the International Auditors for the Year 2004;
10. Proposal on Engaging Year- counselor in the law.

The relevant resolutions were published on the designated newspapers dated Apr. 22, 2004.

(II) The 1st Extraordinary Shareholders' General Meeting 2004

The Company published the notification on holding the 1st Extraordinary Shareholders' General Meeting 2004 on the designated newspapers dated Aug. 4, 2004. The said meeting was held at Yipin Hall on 3/F of Sea View Hotel, OCT, Shenzhen on Sep. 3, 2004. 10 shareholders and shareholder's proxies attended the said Meeting, representing 386,800,857 shares, taking 70.59% of the Company's total voting shares, including 244,629,518 domestic shares and 142,171,339 foreign shares, which was in compliance with the relevant regulations of Company Law and the Articles of Association of the Company. The meeting examined and approved the following proposals by disclosed ballot:

1. Proposal on Investing Project "Dongguan Gaobu Natural Gas Mechanical & Electronical Plant";
2. Proposal on Investing and Establishing Shennandian (Dongguan) Weimei Power Co., Ltd.;
3. Proposal on Amending Provision Management Measure on Special Funds of the Board of Directors;
4. Proposal on Additionally Electing Candidate of Independent Director.

The relevant resolutions were published on the designated newspapers dated Sep. 4, 2004.

(III) The 2nd Extraordinary Shareholders' General Meeting 2004

The Company published the notification on holding the 2nd Extraordinary Shareholders' General Meeting 2004 on the designated newspapers dated Aug. 12, 2004. The said meeting was held at the meeting room of the Company on 17/F of Hantang Building, OCT, Shenzhen on Sep. 14, 2004. 6 shareholders and shareholder's proxies attended the said Meeting, representing 375,976,852 shares, taking 68.61% of the Company's total voting shares, including 243,252,179 domestic shares and 132,724,673 foreign shares, which was in compliance with the relevant regulations of Company Law and the Articles of Association of the Company. The meeting examined and approved the following proposals by disclosed ballot:

1. Proposal on Amending the Articles of Association of the Company;
2. Proposal on Additionally Electing Candidate of Independent Director.

The relevant resolutions were published on the designated newspapers dated Sep. 15, 2004.

(IV) The 3rd Extraordinary Shareholders' General Meeting 2004

The Company published the notification on holding the 3rd Extraordinary Shareholders' General Meeting 2004 on the designated newspapers dated Oct. 29, 2004. The said meeting was held at the meeting room of the Company on 17/F of

Hantang Building, OCT, Shenzhen on Nov. 29, 2004. 7 shareholders and shareholder's proxies attended the said Meeting, representing 374,841,152 shares, taking 68.41% of the Company's total voting shares, including 243,252,179 domestic shares and 131,558,973 foreign shares, which was in compliance with the relevant regulations of Company Law and the Articles of Association of the Company. The meeting examined and approved the following proposals by disclosed ballot:

1. Proposal on Amending the Articles of Association of the Company;
2. Proposal on Additionally Electing Candidate of Independent Director.

The relevant resolutions were published on the designated newspapers dated Nov. 30, 2004.

VII. Report of the Board of Directors

(I) Discussion and analysis of the overall operation status in the report period

1. Scope of main operations and operation

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

In 2004, the national economy increased rapidly and the demand for electricity was great. The east coastal area and the areas of Zhujiang Delta, Guangdong, where the economy develops relatively fast in the country, experienced short supply of power. This led to the situation of demand exceeding supply in the power market. In 2004, the actual power supply in Shenzhen was 37.232 billion KWH, an increase of 20.99% over the same period last year. The network electricity of local gas power plant reached 11.673 billion KWH, and increase of 27.78% over the same period last year. In the whole year, the highest load of the city reached 6.85 million KW, an increase of 18.10% over the same period last year, which was an increase of 1.05 million KW. This created good external conditions for the Company.

(1) Electricity Production

The Company captured the good opportunity of power market well. It organized major maintenance when the electricity demand was relatively small, ensuring the machines in good condition during the fastigium. It overfulfilled all the tasks in the whole year. Besides, after the new power generation sets of Shennandian (Zhongshan) Company completed and put into operation, the Company's equity installed capacity volume reached to 1.11 million KW, which further improved the Company's scale in the field of gas power generation.

In the report period, Nanshan Power Plant realized power generation reached 37.4129 billion KWH, and increase of 18.95%, overfulfilling the power generation objection set by the Board at the beginning of the year. Moreover, it rewrote the record of annual power generation of the plant. In the face of the roaring international fuel price, the Company adopted a scaled approach and flexible purchase means. The average fuel price in the whole year was RMB 1,832.21/ton, and increase of RMB 151.81/ton.

The average fuel price was RMB 3,114.16/ton, an increase of RMB 807.56/ton. The fuel price has increased by RMB 122.1347million in the whole year. To stand the pressure of the rise in the price of gas, the Company strictly controled the power generation production in each procedures. The average network fuel consumption of power generation set was 196.12 gram/KWH, an decrease of 2.91 gram/KWH, resulting in the decrease of RMB 19.217 million. To ensure the security of the power generation set, the Company actually realized maintainence fee amounting to RMB 77.234 million (including the power generation equipment was RMB 69.5987 million), and increase of RMB 18.6587 million.

(2) Non-electricity Production

The engineering Company contracted the the project of stage one and stage two in Fushan Shankou Plant, the first stage engineering of Shennandian (Zhongshan) Company and the first stage of Shenzhen Fuhuade Plant, altogether four consolidated circulating power generation sets of construction general contract and technology services.All the construction have been completed as planned, totally income from realizing main operatins amounting to RMB 58.2 million and net profit RMB 38.26 million.

Xiefu Company operated fuel amounting to 1.4274 million tons, hitting its historical high. It realized profit from mian operations amounting to RMB 60.6026 million and net profit amounting to RMB 24.7451 million. In the report period, the Company established OHSAS18000 Occupation Health and Security Management System. Xifu Company and the Company jointly set up “Purchasing Center of Oil Products”, further strengthened internal management and safety of production operation, effectively ensured the supplying of fuel to subsidiary power plants of the Company.

In the report period, due to increase of electricity generation and increase of income from contract for project, the turnover reached to RMB 2,432,712,000, an increase of 30.51% compared with the last year; due to continual raise of price of fuel in international oil products market, the cost of fuel has increased to RMB 1,391,848,000, an increase of 36.01% compared with the last year. Along with the enlarging of the Company’s scale resulted in increase of period expenses and decrease of subsidy income corresponding, profit before tax was RMB 487,551,000, a decrease of 10.80% compared with the last year. In addition, because the Company totally obtained income tax drawback amounting to RMB 51,640,000 from homemade equipment purchased due to the 1st and 2nd phase of project of “substituting the big for the small”, thus profit attributable to shareholders was RMB 444,582,000, a decrease of 6.60% compared with the last year.

(II) Operations of the Company

1. Main operations scope and its operation

(1) Particulars about composing of income from main operations and profit from main operations

Unit: RMB’0000

Classified according to industries or products	Income from main operations	Cost of main operations	Gross profit ratio (%)
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SHENZHEN NANSHAN POWER STATION CO., LTD.

Production of power	221,801.15	175,464.20	20.89
Contract for project	21,470.10	17,788.72	17.15

Classified according to area	Income from main operations	Cost of main operations	Gross profit ratio (%)
Shenzhen	243,271.25	193,252.92	30.51

(2) Operation activities taking 10% of income from main operations or profit of main operations and what is affiliated with industries

The company's main operations is production of power, belonging to the energy fundamental industry. In the report period, the Company's equity installed capacity reached to 1,110,000 KW, and continued to take the position of being the country's largest gas turbine power generation enterprise and Shenzhen's key peak-regulating power generation enterprise.

In the report period, production of power taking over 10% of income from main operations of the Company, namely Nanshan Power Station completed the power generation of 3,741,290,000 KWH in the whole year, up 18.95% year-on-year, the income from main operations reached to RMB 2,218,011,500, the cost of main operations was RMB 1,754,642,000, and the gross profit margin was 20.89%.

2. Operation and performance of main shareholding companies and equity participation enterprises

Unit: RMB'0000

Companies	Proportion of Shares Held	Business Scope	Registered Capital	Assets Scale	Operating Income	Net Profit	Net assets
Xiefu Company	50%	Purchase and sales of diesel oil, heavy oil, lubricating oil, etc.	5,330	23,754.60	271,260.74	2,474.51	6,116.67
New Power Company	100%	Technical development of residual heat utilization, power generation using residual heat	5,750	74,512	72,498	26,288	47,955.48
SHENNANDIAN (Zhongshan) Company	80%	Projects of combustion engine power generation, residual heat power generation, power and heat supply(exclude heat supply pipes network)	19,840	125,753.56			18,943.94
Engineering Company	60%	Technology consultation service for structure engineering of gas-steam combined circulating electricity generation plant (station), undertaking	1,000	10,695.22	5,820	3,826	4,872.36

		maintenance and overhaul of operation equipment of gas-steam combined circulating electricity generation plant (station)					
Shennandian (Dongguan) Company	55%	Building and operating electricity generation station of natural gas	US\$1,199	9,920	0	0	9,923.54

3. Main suppliers and customers

The key business of the Company is electric power production, and the main raw materials required for electricity generation are fuel oil and spare parts required for the equipment maintenance. For the purchase of the main raw materials, the Company uses the method of international open bidding, and it has established the strategic supplier system through many years of material purchase. In 2004, the total purchase value from top five supplies was RMB 464,451,700, taking 92.91% of the total yearly purchase value. The amount of sale of electric power of Nanshan Power Station was RMB 2,218,011,500, 100% of electric power was sold to Shenzhen Power Supply Company.

4. Problem and difficultness occurred in operation and settlement methods

In the report period, the Company faced the situation of sustainable raised in international fuel price and occupied the highest position. On the one hand, the Company actively strived for import index of fuel, continually widened purchasing channel, struggling adopted safe and economical ways of import and transportation of oil in order to reduce wastage of fuel, on the premise of ensuring oil used in electricity generation, reduced purchasing cost of fuel possibly; on the other hand, the Company struggling reduced cost of production, therefore, the Company set up the purchasing center of oil products and of contingency spare part early and late, implemented uniform purchasing in fuel of all subsidiary power plants and a large amount of spare parts, and set down the relevant management regulations, standardized management of the following links such as purchasing, transportation and reserve of materials in order to reduced wastage of all links.

(III) Investment

1. Investment of raised funds

In the report period, the Company did not have any newly raised fund and the proceeds raised in previous offer has been used up in 2001.

2. Non-raised fund investment of the Company and shareholding companies

(1) In the report period, the Technical Renovation of Electricity Generation Project of "Substituting the Big for the Small" in Zhongshan invested and established by Shennandian (Zhongshan) Company (the Company and Xingdesheng Company hold its 80% equity in total), namely two gas-steam combined circulation electricity generation sets whose installed capacity reaching to 2 × 180,000 KW has been set up

and put into production, which completed investment of engineering structure of RMB 1.02 billion.

(2) On Dec. 8, 2003, the Company and Zhongshan Power Development signed Agreement on Technical Renovation of Use of Residual Heat and with Zhongshan Jiafa Power Co., Ltd. and Zhongshan Zhongfa Power Co., Ltd. respectively, in the period of project co-operation, the Company provided technology service and capital of RMB 50 million, while the opposing party preferentially paid fixed expenses to the Company since the Project on Technical Renovation of Use of Residual Heat set up and put into production. The said technical renovation project has been set up and put into production on Sep. 27, 2004. (For details, please refer to the relevant public notice published on the designated newspapers dated Feb. 4, 2004 and Sep. 29, 2004.)

(3) On Feb. 24, 2004, the Company and Nangang Power (Hong Kong) Co., Ltd. jointly established Engineering Company with registered capital of RMB 10 million, the proportion of equity was 60% and 40% respectively. In the report period, Engineering Company undertook three projects of 9E series combustion engine power station, added original 4 projects in progress, and the general contract of a majority of combustion engine power station project in Guangdong Province, technology consultation service and engineering management business. Engineering Company realized the income from main operation of RMB 58.2 million and net profit of RMB 38.26 million.

(4) In order to further enlarge the market quotient of the Company in the field of electricity generation of turbine power generation, enhanced the Company's anti-risk capability, combining the project of Guangdong Dongguan "LNG Nature Gas Piping Net" simultaneity, the Company undertook the project of "Dongguan Gaobu Nature Gas Combustion Engine Power Station" originally invested and established by Guangdong Electric Power Development Co., Ltd. in Weimei Industrial Park, Tangxia Area, Gaobu Town, Dongguan, Guangdong. The said project has been approved by Guangdong Economic and Trade Committee for establishment. The Company signed the Agreement on Adjustment of Development Right of Dongguan Gaobu Nature Gas Power Station Project and Supplemental Agreement on Adjustment of Development Right of Dongguan Gaobu Nature Gas Power Station Project with original developer on Jun 23, 2004. On Oct. 9, 2004, the Company, Xindesheng Company and other three shareholders jointly signed the Joint Venture Agreement on Chinese-foreign Joint Venture Operating Shennandian (Dongguan) Weimei Power Co., Ltd., according to the stipulation of the said agreement, the five parties jointly established Chinese-foreign Joint Venture Company - Shennandian (Dongguan) Weimei Power Co., Ltd. with registered capital of RMB 396.8 million, the proportion of equity was respectively 40%, 15%, 15%, 20% and 10%. The said project respectively was invested and established one set gas-steam combined circulation residual heat power generation sets (1 × 180,000KW) by two stages (general installed capacity is 360,000 KW), and planed to invest RMB 1.204 million in it. In the report period, the prophase

work of the said project has been completed, and put in stage of civil construction. In accordance with progress of project structuaction, the Company estimated that two sets electricity generation sets were put into production respectively in the last ten-day of September 2005 and the last ten-day of October 2005. (For details, please refer to the relevant public notice published on the designated newspapers on Aug. 4, 2004, Sep. 4, 2004 and Nov. 19, 2004).

(IV) Financial position

Unit: RMB'000

	In 2004 (the year)	In 2003 (the last year)	Increase/decrease of this year over the last year (%)
Shareholders' equity	1,708,136	1,519,821	
Profits attributable to shareholders	444,582	475,995	
Net increase in cash and cash equivalents	87,292	(76,838)	

Reasons for increase/decrease:

- 1.The increase of shareholders' equity is because of increase of profits attributable to shareholders and public reserve.
2. The decrease of profits attributable to shareholders is because of raise of fuel cost.
3. Increase of net increase in cash and cash equivalents is mainly because the Company invested the relevant funds in Zhongshan Power Station Project, resulting in increase of the loan scale, thus net cash inflows of financing has increased.

(V) Influence of changes in production and operation environment and macroscopic policy on Company's operation

1. Rising demand for power

In accordance with forecast of State Grid Cooperation of China, in 2005, the national electricity consumption will increase by about 10.5% , the electricity demand reached to 2391 billion KWH, an increase of 260 billion KWH comparied with the year 2004; the situation of Guangdong Province's power supply was more tensity comparied with the year 2004, the electricity consumption of the whole province will reach to 270.9 billion KWH, up 13.5% over the last year; Guangdong Province's electric power load is forecasted to increase by 6 million KW, the shortage of power supply is about 4.5 million KWH, thus, Guangdong Province will become the most tensional area in the national power supply, and will continually display all-yearly and all-net shortage of power; in 2005, Shenzhen's highest power network load is forecasted to reach to 7.9 million KW, the peak shortage of power will reach 0.6 million KW. The flinty situation of power supply created the favorable external conditions for actively striving for power generation.

2. Rise in the fuel price

In 2004, because the price of international oil market break historical recorder with the persistent high price, the cost of fuel needed for power generation increased by 122,134,700 than the same period of the last year, and added to the Company's power production cost.

(VI) The Company's Financial Report has been respectively audited by Guangzhou Yangcheng CPAs Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants, both of which produced Unqualified Auditor's Reports.

(VII) Business plan of the new year

1. NSRD will be more market-oriented in 2005, depending on previous advantages in this industry, keep gas turbine generation as business core, and more proactive to explore relevant business to shape a new comprehensive industry chain in fuel trade, electric power production, engineer construction, facility maintenance, technology service and professional training. Shenzhen will still keep the core position of business scope in the coming year, while more attention will also given to Zhongshan and Dongguan to enlarge local investment based on proactive and stable principles, that will establish a new status in triangular balance to support business development in Pearl River Delta area.

2. With "standardized management" as a major topic to implement manage innovation and system reformation, the Company will explore a new far-sighted operation and management system, also keep NSRD original characteristics, balanced standard and efficient in order to meet the demands of collectivize operation and sustainable development, perfect modern enterprise management system, strength human recourse management, and establish a learning-style enterprise with harmonious and proactive enterprise culture, cultivate core competition of the Company.

3. The Company will put production and operation plan of subordinate enterprises into headquarters collectivity management. According to the analysis of electric power operation, supply and demand situation of 2005, the Company will insure 62.4 billion KWH power generations based on the Company actually production capacity.

4. With the tenet of "safety first, cost priority", the Company will reinforce safety management. Take a lesson from "4.30" accident happened in Nanshan power station No.10 engineer, the Company will invest RMB 20 million and RMB19 million to facility maintenance and technology innovation, respectively, to enhance and advance comprehensive maintenance of power production facility, establish a health safety management system and network.

5. Establish "Purchasing Center for Materials", sort out supply chain management system, listed fuel supply and work for purchasing large amount of materials of all subsidiaries and secondary organs into plan management, put purchasing scale advantage into full play, and realize effective share of resources; actively enlarge petroleum supply channel, explore more scientific and advanced purchasing method, avoid market risk, reduce purchasing costs and ensure timely supply for productive materials.

6. Fully implement financial budget management, control every item of costs and expenses effectively and dig out inner potentiality; establish "Financial Supervision

Center”, which arrange bank loan of the Company and controlling subsidiaries, strengthen centralized management of capital, effectively avoid financial risks, and reduce financial expenses; according to the need of investment program of the Company, conduct financing of capital market timely, reduce debt ratio, and insure steady development of the Company.

7. The Company established human resources department, strengthened human resources management function, remade human resources management strategy in need of wholly operation and development strategy, established scientific post holding system and achievement management system, and promoted all-around achievement level of the Company; organized and developed management training and special skills training, and promoted management level and comprehensive qualities roundly.

8. The Company propelled project construction of Gaobu Power Plant again, tried to realize two sets of united circling system respectively in the second half of Sept. and Oct., 2005 respectively would put into production and generate power, and created economic benefits as soon as possible.

9. Shen Nandian (Zhongshan) Company tried to realize commercial operation of 1st Phase of “Substituting the Big for the Small” technology innovation project, meanwhile, it actively searched for support of Guangdong Province and Zhongshan Municipal Government, and tried to get the net electricity price, which facilitated enterprise operation; under the permittance conditions, it applied for listing items for 2nd Phase of “Substituting the Big for the Small” technology innovation project.

10. The Company accomplished share equity transfer and debts reorganization of Zhongshan Zhongfa Power Co., Ltd. and Zhongshan Jiafa Power Co., Ltd. owned by Zhongshan Power Development Company and sorted out ownership relationship.

11. The Company actively followed construction rate of Guangdong Province LNG Clearing Energy Sources Project and developed oil-change-into- gas project of Nanshan Power Plant; meanwhile, the Company did preparatory work for burying natural gas instead of Zhongshan New Plant and Gaobu Power Plant, and prepared for generating power by using natural gas as soon as possible.

12. In the principle of “active, reliable and creaful”, the Company would propel all-round power united supply project of Nanshan Power Plant for prepare for supplying gas offically, ewhich would be an chance to accumulate project production and operating experinces, avtively paid attention to development pulse of Guangdong Province Power United Supply Industry, and put the industry as a research direction of devlopment of the Company in the future.

13. The project company would introduce advanced project management pattern, strenthened safety management and quality supervision of constrction to insure every ittem of contrcting project construction task safely, high effciently and all wool and a yard wide.

(VIII) Routine Work of the Board of Directors

1. Meetings

In the report period, the Board of Directors held seven meetings altogether, and organized to hold Annual Shareholders’ General Meeting 2003 and three Provisional Shareholders’ General Meeting in 2004 with details as follows:

(1) The 7th meeting of the 4th Board of the Company was held on Mar. 14, 2004, which examined and approved Work Report 2003 of General Manager, Financial Settling Report 2003, Report Withdrawing Impairment Losses on Every Item of Assets of the Company in 2003, Preplan on 2003 Profit Distribution and Capital Reserve conversion into Share Capital, 2003 Annual Report and its Summary, 2003 Auditor's Report (domestic and overseas version), Proposal on Paying Remuneration of 2003 to the Company's Domestic Auditor---Guangzhou Yangcheng CPAs Co., Ltd., Proposal on Paying Remuneration of 2003 to the Company's International Auditor---PricewaterhouseCoopers Certified Public Accountants, Work Report of the Board of Directors 2003, Planned Report of the Company's Production, Operation and Management 2004, Proposal on Credit Scale and Authorization in Limitation of External Guarantees 2004, Proposal on Engaging the Company's Domestic Auditors in the Year 2004, Proposal on Engaging the Company's Overseas Auditors in the Year 2004, Proposal on Engaging Perennial Law Advisor of the Company in 2004, Proposal on Change of Independent Directors and Proposal on Holding Annual Shareholders' General Meeting 2003. The meeting also discussed Plan on Assessment and Encouragement and Punishment of Salary and Production Operation Goal in 2004.

(2) The 8th meeting of the 4th Board of Directors was held on Apr. 13, 2004, which examined and approved Report of production, operation and management of 1st Quarter of 2004, 2004 1st Financial Settling Report. 2004 1st Quarterly Report and Plan on Assessment and Encouragement and Punishment of Salary and Production Operation Goal in 2004. The attendants also seriously studied Several Opinions on Propelling Reform and Opening-up and Steady Development of Capital Market promulgated by the State Council.

(3) The 9th meeting of the 4th Board of the Company was held on Aug. 1, 2004, which heard and examined and approved Report on Business Development of Shenzhen Shen Nandian Fuel Engine Project Technology Co., Ltd., Proposal on Investing Dongguan Gaobu Natural Gas Fuel Engine Power Plant, Proposal on Investing and Setting up Shen Nandian (Dongguan) Weimei Power Co., Ltd., Report on Progress of Zhejiang Ruian Fuel Engine Power Station Project, Proposal on Setting up Salary and Assessment Committee of the Board, Implementation Detail Rules of Salary and Assessment Committee of the Board of the Company, Report on Revising <Trial Measures of Special Fund Management> of the Board of the Company, Proposal on Supplementing Candidates for the Independent Directors, Report on Transfer #21, # 22, #23 Fuel Engines of the Company, Proposal on Revising <Assets Trustee Contract of Shenzhen Xindianli Industrial Co., Ltd.>, and Proposal on Suggesting Holding 1st Provisional Shareholders' General Meeting of the Company in 2004. The meeting also examined Report on Safety Production and Fuel Engine Accidents of the Company. Meanwhile, the attendants also heard Report on Joining the Bidding of Trinidad and Tobago Natural Gas Power Station.

(4) The 10th meeting of the 4th Board of the Company was held on Aug. 10, 2004, which examined and approved Report on Production, Operation and Management of the Company in metaphase of 2004, Financial Settling Plan in metaphase of 2004,

2004 Semi-annual Report and its Summary (domestic and overseas version), and Proposal on Establishing <Investors' Relationship Management System of Shenzhen Nanshan Power Station Co., Ltd.>, Proposal on Revising <the Articles of the Association> of the Company, Proposal on Supplementing Candidates for Independent Directors and Proposal on Suggesting Holding 2nd Provisional Shareholders' General Meeting of the Company in 2004. The meeting also examined Proposal on Increasing Capital on Shenzhen Energy Environmental Protection Co., Ltd..

(5) The 11th meeting of the 4th Board of the Company was held on Oct. 15, 2004, which examined and approved Work Report on Production, Operation and Management of the Company in 3rd Quarter of 2004, 3rd Quarterly Financial Settling Report of 2004, 2004 3rd Quarterly Report and its Summary (domestic and overseas version)

(6) The Provisional meeting of the 4th Board of the Company was held on Oct. 27, 2004, which examined and approved Proposal on Revising <Articles of the Association> of the Company, Proposal on Supplementing Candidates for Independent Directors and Proposal on Suggesting Holding 3rd Provisional Shareholders' General Meeting in 2004.

(7) The Provisional meeting of the 4th Board of the Company was held on Dec. 17, 2004, which examined and approved Proposal on Supplementing Directors, Proposal on Resignation of General Manager, proposal on Suggesting Mr. Fu Bo in Charge of the Work and Proposal on Suggesting Holding 1st Provisional Shareholders' General Meeting in 2005.

2.Implementation of the Resolutions of the Shareholders' General Meeting by the Board of Directors

According to the relevant resolutions of Shareholders' General Meeting 2003, the Board of Directors organized the implementation of Dividends Distribution Plan 2003: based on the total share capital amounting to 547,965,998 shares ended December 31, 2003, the Company distributed cash dividend at the rate of RMB 4.68 for every 10 shares (after deduction of tax, the net dividend was distributed at RMB 3.744 for every 10 shares) to shareholders of A-shares and RMB 4.68 for every 10 shares to shareholders of B-shares. The registered date was Jun. 9, 2004 and ex-dividend date was Jun. 10, 2004. The exchange rate between HK\$ and RMB for the dividend of B-shares was based on HK\$ 1 = RMB 1.0612. The Company paid cash dividend totaling RMB 256,448,087.06.

(IX) Preplan on Profit Distribution or Converting Capital Public Reserve into Share Capital in 2004

Audited by Guangzhou Yangcheng CPAs Co., Ltd. according to the Independent Auditing Standards for Chinese Certified Public Accountants, the net profit realized by the parent company in 2004 was RMB 445,589,396.54. After the statutory public reserve was provided based on 10% of the net profit amounting to RMB 44,558,939.65, and the public welfare fund was provided based on 5% of the net profit amounting to RMB 22,279,469.83 in accordance with the relevant provisions of the Articles of Association, the balance was RMB 378,750,987.06. Plus the

undistributed profit carried down from 2003 amounting to RMB 502,587,864.88, subtract the cash dividends distributed last year amounting to RMB 256,448,087.06, the total profit available for distribution to the shareholders in 2004 was RMB 624,890,764.88. After the consolidation, the net profit of the Company in 2004 was RMB 439,697,156.26. After provision of the statutory public reserve amounting to RMB 73,008,885.88 (the Parent Company RMB 44,558,939.65; consolidated subsidiaries RMB 28,449,946.23) and public welfare fund amounting to RMB 36,504,442.95 (the Parent Company RMB 22,279,469.83; consolidated subsidiaries RMB 14,224,973.12), the balance was RMB 330,183,827.43. Plus the undistributed profit carried down from 2003 amounting to RMB 434,227,101.70, subtract the cash dividends distributed last year amounting to RMB 256,448,087.06, the profit available for distribution to the shareholders after consolidation in 2004 was RMB 507,962,842.07.

Audited by PricewaterhouseCoopers Certified Public Accountants, the net profit realized in 2004 based on the calculation according to Hong Kong Accounting Standards was RMB 442,582,000. Less the statutory public reserve provided based on 10% of the net profit amounting to RMB 44,559,000 and public reserve provided based on 5% of the net profit amounting to RMB 22,279,000 according to the regulations of the People's Republic of China, plus the undistributed profit carried down from the previous year amounting to RMB 450,757,000 and less the difference arising from the consolidation of the subsidiaries amounting to RMB 59,205,000 and the conversion into capital public reserve amounting to RMB 4,885,000, subtract the cash dividends distributed last year amounting to RMB 256,448,000, the profit available for distribution to the shareholders in 2004 was RMB 507,963,000.

Based on the above calculation result, the profit available for distribution to the shareholders after the domestic consolidation in 2004 was RMB 507,963,000, and the domestic parent company's profit available for distribution to the shareholders was RMB 624,890,764.88; the profit available distribution to the shareholders outside the People's Republic of China was RMB 507,963,000. According to the relevant provisions of the State Ministry of Finance (Financial-Accounting Zi (1995) No. 31 and China Securities Regulatory Commission (CSRC Letter (1994) No. 1), based on the principle of soundness and the lower of the two, the profit available for distribution to shareholders was worked out according to the domestic consolidation in 2004, namely RMB 507,962,842.07.

The preplan on profit distribution in 2004 is: allotting cash to all shareholders (total share capital is 547,965,998 shares) at the rate of RMB 5.00 (tax included) for every 10 shares, totaled RMB 273,982,999, and the balance is carried forward to the next year.

The Company shall not convert capital reserve into share capital in the year.

The above proposal is subject to Shareholders' General Meeting 2004 for review and approval before implementation.

(X) Special explanations on capital occupied by related parties and external guarantees

1. The special explanations on capital occupied by the first largest shareholder and

other related parties of the Company presented by Guangzhou Yangcheng CPAs Co., Ltd.:

Accepting commission of the Company, According to the requirements of CSRC Shenzhen Securities Inspection Bureau SZJFZ[2004] No. 338 Notification on Strengthening Disclosure Work of Capital Occupation and Guarantee out of line of Listed Companies, we have conducted special inspection on the capital of the Company occupied by its controlling shareholder and other related parties (excluding related parties out of consolidation statement scope) audited as of Dec. 31, 2004. Our inspection is conducted according to ZJF [2003] No. 56 Circular on Standardizing Capital Current between Listed Companies and Related Parties and External Guarantees and Other Some Problems. The responsibility of the Board of the Company is to provide all true, legal and complete materials relevant to capital occupation, including such materials or copy materials as original contracts or agreements etc., accounting warrants and books, accounting statements, relevant practicality evidence and other information necessary in our opinion. Our responsibility is to conduct relevant investigation and present special explanation on capital current between the Company and its related parties according to the provisions in the said ZJF [2003] No. 56 Document. During the investigation, we have implemented such inspection procedures necessary in our opinion as consulting relevant materials, accounting warrants, checking up accounting book records and etc..

Now the auditing is explained as follows:

- (1) There existed no advance wages, welfare, insurance, advertisement and other period expenses for its related parties or bear the cost and other expenditures for each other mutually about the Company;
- (2) The Company didn't borrow the Company's capital for its related parties with compensation or without compensation;
- (3) The Company didn't provide entrusted loans for its related parties through bank or non-bank financial institutions;
- (4) The Company didn't entrust its related parties to conduct investment activities;
- (5) The Company didn't open trade acceptances without true transaction background for its related parties;
- (6) The Company didn't refund liabilities for its related parties;

2. The special explanations on external guarantee of the Company presented by Guangzhou Yangcheng CPAs Co., Ltd.:

Accepting commission of the Company, According to the requirements of CSRC Shenzhen Securities Inspection Bureau SZJFZ[2004] No. 338 Notification on Strengthening Disclosure Work of Capital Occupation and Guarantee out of line of Listed Companies, we have conducted special inspection on the Company's external guarantees audited as of Dec. 31, 2004. Our inspection is conducted according to ZJF [2003] No. 56 Circular on Standardizing Capital Current between Listed Companies and Related Parties and External Guarantees and Other Some Problems. The responsibility of the Board of the Company is to provide all true, legal and complete materials relevant to capital occupation, including such materials or copy materials as

original contracts or agreements etc., accounting warrants and books, accounting statements, relevant practicality evidence and other information necessary in our opinion. Our responsibility is to conduct relevant investigation and present special explanation on external guarantee of the Company according to the provisions in the said ZJF [2003] No. 56 Document. During the investigation, we have implemented such inspection procedures necessary in our opinion as consulting relevant materials, accounting warrants, checking up accounting book records and etc..

Now the auditing is explained as follows:

(1) Ended Dec. 31, 2004, the Company provided bank loan guarantee amounting to RMB 200 million for holding subsidiary Shen Nandian (Zhongshan) Power Co., Ltd. (hereinafter referred to "Shen Nandian (Zhongshan)"). Shen Nandian (Zhongshan) is a joint venture established by one time and increased investment by three times, with the registered capital amounting to RMB 396.8 million. At the end of 2004, the actual paid-in capital of Shen Nandian (Zhongshan) was RMB 198.4 million. The debt ratio after auditing was 84.94%. The registered capital having not invested would be successively put in according to the capital need and production and operation, and the debt ratio would change with it.

(2) There existed no guarantee provided by the Company for controlling shareholder and other related parties, of which the Company held less than 50% shares, any non-legal person's units or individuals;

(3) There existed no total amount of external guarantee exceeding 50% of net assets of the consolidated statements in the latest accounting year of the Company;

(4) Ended Dec. 31, 2004, external guarantee of the Company were examined and approved by 2003 Shareholders' General Meeting.

3. Special explanations and independent opinions of the Company's independent directors on external guarantees accumulated and in the current period

In the spirit of CSRC Circular on Standardizing Listed Companies' Capital Current with Related Parties, External Guarantees and Other Several Problems (ZJF[2003] No. 56) and Shenzhen Securities Inspection Bureau Notification on Strengthening Disclosure Work of Capital Occupation and Guarantee out of line of Listed Companies (SZJFZ [2004] No. 338), we have seriously checked the Company's guarantees in 2004. Through checking 2004 Auditor's Report and our investigation, we presented the following independent opinions:

In the report period, the guarantee amount in the report period of the Company on controlling subsidiary, Shen Nandian (Zhongshan) Company was RMB 200 million; there existed no guarantee provided by the Company for controlling shareholder and other related parties, any non-legal person's units or individuals; there existed no total amount of external guarantee exceeding 50% of net assets of the consolidated statements in the latest accounting year of the Company;

We believed, in the report period, the guarantee provided for controlling subsidiary was in need of production and operation of the Company and reasonable use of capital of the Company, approved by the Board and Shareholders' General Meeting, conducted information disclosure by law; the decision-making procedures of external guarantees were legal, reasonable and fair; the external guarantees did not harm the

interests of the Company and its shareholders, especially small and medium shareholders.

Independent Directors: Huang Sujian (Zhou Chengxin signed on his behalf), Liu Zhanjun, Zhou Chengxin, Xu Jingan, Yu Xiufeng

VIII. Report of the Supervisory Committee

(I) Work of the Supervisory Committee

According to relevant regulations of Company Law and the Articles of the Association, the Supervisory Committee seriously fulfilled its duties. In the report period, the Supervisory Committee held 6 meetings and attended all meetings of the Board with the details as follows:

1. The 7th meeting of the 4th Supervisory Committee of the Company was held on Mar. 4, 2004, which examined and approved Work Report 2003 of General Manager, Financial Settling Report 2003, Report on Withdrawing Impairment Losses for Each Item of Assets of the Company in 2003, Preplan on 2003 Profit Distribution and Capital Reserve Conversion into Capital Reserve, 2003 Annual Report and its Summary, 2003 Auditing Report (domestic and overseas version) and work Report 2003 of the Supervisory Committee.
2. The 8th meeting of the 4th Supervisory Committee of the Company was held on Apr. 13, 2004, which examined and approved Work Report on Production, Operation and Management of the Company in 1st Quarter of 2004, 1st Quarterly Financial Settling Report of 2004, 2004 1st Quarterly Report and 2004 Plan on Evaluation and Encouragement and Punishment of Goal of Salary and Production Operation. The attendants seriously studied Several Opinions on Propelling Reform and Opening-up and Steady Development of Capital Market promulgated by the State Council.
3. The 9th meeting of the 4th Supervisory Committee of the Company was held on Aug. 1, 2004, which heard and examined and approved Report on Business Development of Shenzhen Shen Nandian Fuel Engine Project Technology Co., Ltd., Proposal on Investing Dongguan Gaobu Natural Gas Fuel Engine Power Plant, Proposal on Investing and Setting up Shen Nandian (Dongguan) Weimei Power Co., Ltd., Report on Progress of Zhejiang Ruian Fuel Engine Power Station Project, Report on Transfer #21, # 22, #23 Fuel Engines of the Company, Proposal on Revising Assets Trustee Contract of Shenzhen Xindianli Industrial Co., Ltd., and Proposal on Suggesting Holding 1st Provisional Shareholders' General Meeting of the Company in 2004. The meeting also examined Report on Safety Production and Fuel Engine Accidents of the Company. Meanwhile, the attendants also heard Report on Joining the Bidding of Trinidad and Tobago Natural Gas Power station.
4. The 10th meeting of the 4th Supervisory Committee of the Company was held on Aug. 10, 2004, which examined and approved Report on Production, Operation and Management of the Company in metaphase of 2004, Financial Settling Plan in metaphase of 2004, 2004 Semi-annual Report and its Summary (domestic and overseas version), and Proposal on Establishing <Investors' Relationship Management System of Shenzhen Nanshan Power Station Co., Ltd.>, Proposal on Revising <the Articles of the Association> of the Company, Proposal on

Supplementing Candidates for Independent Directors and Proposal on Suggesting Holding 2nd Provisional Shareholders' General Meeting of the Company in 2004. The meeting also examined Proposal on Increasing Capital on Shenzhen Energy Environmental Protection Co., Ltd..

5. The 11th meeting of the 4th Supervisory Committee of the Company was held on Oct. 15, 2004, which examined and approved Work Report on Production, Operation and Management of the Company in 3rd Quarter of 2004, 3rd Quarterly Financial Settling Report of 2004, 2004 3rd Quarterly Report and its Summary (domestic and overseas version)

6. The Provisional meeting of the 4th Supervisory Committee of the Company was held on Oct. 27, 2004, which examined and approved Proposal on Revising <Articles of the Association> of the Company, Proposal on Supplementing Candidates for Independent Directors and Proposal on Suggesting Holding 3rd Provisional Shareholders' general Meeting in 2004.

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

1. The Company's operation according to laws

In the report period, the Supervisory Committee attended all meetings of the Board of Directors and seriously supervised on all decisions, material operations and investments and implementations of resolutions made by Shareholders' General Meeting, and executed duties of supervisors. The Supervisory Committee considered, the Company could develop all productive and operative business according to the State and local laws and regulations and the Articles of Association. The Company step by step established and consummated legal person administration structure. The decision-making procedures of the Company need further standardizing. Directors and managers of the Company still abided by regulations of relevant laws, regulations and the Articles of the Association of the Company in executing the duties of the Company. However, at the same time, former individual executive of the Company didn't fulfill the obligations and report to the Board and Supervisory Committee according to the relevant procedures, in providing external guarantee for Xiefu Company controlled by the Company. At present, under the coordinate work of the new Board and new operating team, there was no future trouble about the matter. The Supervisory Committee required the Company further sounded and consummated every item of inner control and management system, which standardized and rationalized the daily work of the Company.

2. Inspecting the Company's finance

In 2004, the Supervisory Committee seriously checked auditors' report submitted by CPAs engaged by the Company and other accounting materials submitted by the Company. The Supervisory believed, the Company can implement finance and tax policies of the State and paid attention to financial management. Guangzhou Yangcheng CPAs Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants presented unqualified auditor's report for the Company, which truly reflect the finance, operating results and cash flow of the Company. The Supervisory Committee required the Company seriously standardized operating activities, absorbed lessons, reported timely about significant operating activities, strengthened financial supervision, made

relevant system about financial supervision and risk safeguard of enterprise as soon as possible, and strictly operated according to relevant regulations of the Articles of the Association.

3. Use of raised proceeds

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

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

In the report period, the Company transferred three 5B gas wheel power generation sets (#21, #22, #23) of Nanshan Power Plant to Wuhan Iron & Steel Construction Project Group Co., Ltd.. With respect to this, the Supervisory Committee required at the 9th meeting of 4th Board, in the process of selling assets and transferring share equity, the Company must conduct assets evaluation, as the reference for the decision-making of the Board, and also as the gist for fairness and rationality of assessment on disposing and purchasing and transferring assets and share equity and on achievements of management team. The Supervisory Committee required, the Company conducted sale and purchase of assets strictly according to lawful and normal procedures in the future.

5. Related transactions

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

6. Clearing of Beneficial Fund

The Supervisory Committee required the Company carried out the relevant contents of ZJZGZ[2004] No. 14 Notification on Rectification swiftly and tried to complete clearing work in the first half of 2005.

IX. Significant Events

(I) In the report year, the Company had no material lawsuits and arbitrations.

(II) In the report period, the Company's acquisition and sales of assets, consolidation and merger

In the report period, the Company transferred three 5B gas wheel power generation sets (#21, #22, #23) of Nanshan Power Plant to Wuhan Iron & Steel Construction Project Group Co., Ltd. with the transaction price amounting to RMB 20 million. At present, three power generation sets have been removed, transfer payment received amounting to RMB 10.1 million, transfer payment amounting to RMB 9.9 million remained to be collected.

(III) Significant related transactions

1. In the report period, the Company had no significant related transactions about

purchase and sale of goods and supplying labor service.

2. In the report period, the Company had no related transactions about assets and share equity transfer.

3. Related transactions occurred of investment together by the Company and related parties

(1) In the report period, the Company invested and established Shen Nandian (Dongguan) Company in Dongguan, Guangdong Province. The Company and Xingdesheng Company took 40% and 15% shares of that company. Please refer to Investment of the Company in Section VII.

(2) The 4th meeting of 4th Board of the Company and 7th Provisional Shareholders' General Meeting of 2003 examined and approved Proposal on Investing and Establishing Shen Nandian (Zhongshan) Power Co., Ltd., agreeing to establish Shen Nandian (Zhongshan) Company. The Company and Xingdesheng Company took 55% and 15% shares of that company respectively. The registered capital of Shen Nandian (Zhongshan) Company was RMB 396.8 million, which would be invested at the rate of equal amount for 4 periods. In 2003, the Company and Xingdesheng Company conducted 1st phase investment respectively on that company, RMB 54.56 million and RMB 24.8 million respectively; in the report period, the Company and Xingdesheng conducted 2nd investment with the equal amount.

4. There existed current credits and liabilities and guarantees between the related parties (including subsidiaries not listed into consolidated scope) and the Company.

(1) Ended Dec. 31, 2004, the Company provided guarantee for RMB 200 million for holding company Shen Nandian (Zhongshan) Power Co., Ltd.

(2) Ended Dec. 31, 2004, the Company should pay related company Shenzhen Xiefu Oil Supply Co., Ltd. amounting to RMB 3,235,300.

(3) Ended Dec. 31, 2004, the Company should pay related company Shenzhen Moon Bay Renhe Industrial Co., Ltd. amounting to RMB 809,400.

(4) Ended Dec. 31, 2004, the Company should pay related company Shenzhen Energy Group Co., Ltd. amounting to RMB 553,300.

(5) Ended Dec. 31, 2004, the Company should pay related company Baizuoli Petroleum Co., Ltd. amounting to RMB 7,095,100.

The above matters had no significant influence on the Company.

5. Other significant related transactions

The Company had no other significant related transactions.

(IV) Significant contracts of the Company and its implementation

1. Custody, contract and lease

On Dec. 20, 2003, the Company signed Contract on Contracting Enlargement Construction Project of Foshan Shakou Power Plant with Foshan Funeng Power-generating Co., Ltd., with the total contract amount of RMB 350 million, of which amount for purchasing equipment was RMB 145 million. Ended Dec. 31, 2004, the completion rate of project was 60%. The project was estimated to accomplish and put in production in the end of March in 2005.

2. Significant guarantee

According to the requirements of Notification on Several Problems about

Standardizing the Capital Current between the Listed Companies and Related Parties and External Guarantee of Listed Companies (ZJF [2003] No. 56) promulgated by CSRC, the Company conducted self-inspection on capital current with related parties and external guarantee:

Ended Dec. 31, 2004, the Company provided bank loan guarantee amounting to RMB 200 million for holding subsidiary Shen Nandian (Zhongshan) Power Co., Ltd. (hereinafter referred to “Shen Nandian (Zhongshan) “). Shen Nandian (Zhongshan) is a joint venture established by one time and increased investment by three times, with the registered capital amounting to RMB 396.8 million. At the end of 2004, the actual paid-in capital of Shen Nandian (Zhongshan) was RMB 198.4 million. The debt ratio after auditing was 84.94%. The registered capital having not invested would be successively put in according to the capital need and production and operation, and the debt ratio would change with it.

3. In the report period, the Company didn’t entrust others to manage cash assets.

4. In the report period, the Company had no other significant contracts.

(V) Implementation of commitment of the Company

1. From Nov. 4, 2002, the Company began to accept case investigation by Shenzhen Inspection Bureau of CSRC. The Company committed disclosing inspection result timely to investors. The Company implemented the relevant commitment. Please refer to the details in contents of (VII) of this Section.

2. In the report period, shareholders holding over 5% shares of the Company had no other commitment.

(VI) The Company’s engagement of certified public accounts and payment of remuneration in the report period

From listing year 1994 to year 2004, the Company all through engaged Guangzhou Yangcheng CPAs Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants as the Company’s domestic and foreign auditor respectively (The relevant resolutions were published in the designated newspapers on Apr. 22, 2004).

The Company decided the auditing remuneration of accountants subject to the approval of the Board of Directors and the Shareholders’ General Meeting, according to Provisional Regulation on Charge Standards of Certified Public Accounts released by Shenzhen Bureau of Finance with SCZ (1995) No. 38 document and the Company’s total annual assets, and referring to the payment of auditing expense of other listed companies in the equivalent scale. The Company and its subsidiaries engaged certified public accounts with details as follows:

Auditing items	In 2004		In 2003	
	Auditors	Auditing expenses	Auditors	Auditing expenses
Group consolidated financial report and interim and annual financial report of domestic subsidiaries under Chinese Accounting Standards	Guangzhou Yangcheng CPAs Co., Ltd.	RMB 790,000	Guangzhou Yangcheng CPAs Co., Ltd.	RMB 750,000
Group consolidated financial	PricewaterhouseCoopers	HKD 74,000	PricewaterhouseCoopers	HKD 520,000

report under International Accounting Standards	Certified Public Accountants		Certified Public Accountants	
Annual financial report of foreign subsidiaries	Ernst & Young Certified Public Accountants	S\$2806.30	Ernst & Young Certified Public Accountants	S\$2806.30

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

(VII) From Nov. 4, 2002, the Company accepted the case investigation of Shenzhen Inspection Bureau of CSRC. Through two years investigation, on Jul. 12, 2004, China Securities Regulatory Commission (hereinafter referred to “CSRC”) issued ZJFZ[2004] No. 22 Administration Punishment Decision and ZJZGZ [2004] No. 14 Rectification Notification. After receiving the above documents, all directors, supervisors and members of the operating group paid high attention. With respect to relevant laws and regulations, they conducted serious discussion, analysis and research about Rectification Notification; according to Rectification Notification and SFJ [2003] No. 13 Document, they made and carried out rectification measures item by item. On Jul. 29, 2004, the Company transferred forfeit amounting to RMB 300,000 into the account designated by CSRC. In the scope of the Company, original directors, supervisors and senior executives still holding posts were given aviso criticism. Ended Dec. 31, 2004, the cumulative payment retrieved was amounting to RMB 28,407,945.10, and the rest amount having not retrieved RMB 14,124,000 was in the process of withdrawing.

(VIII) Other significant matters

1. After the Reply of SJMF[2002] No. 68 Document of Shenzhen Economics and Trade Bureau, New Power Company won Advanced Technology Enterprise of Foreign Investment. After successfully passing 2003 assessment, it continually enjoyed series of preferable policies such as reducing and exempting tax.

2. According to the spirit of Notification on Fuel Subsidy for Fuel Power Plant in Summer Peak of 2003(SMGF [2004] No. 14) issued by Shenzhen Trade and Industry Bureau and Shenzhen Finance Bureau, the Company obtained net power subsidy amounting to RMB 5,925,036 in summer power peak of July and August 2003. (Refer to relevant Public Notice published in designated newspaper on Jun. 1, 2004)

3. On Jun. 2, 2004, CSRC approved 47,553,343 non-listed foreign shares held by foreign sponsor shareholder, Tengda Property Co., Ltd., converted to domestic listed foreign shares (B-share) after verification. The shares would circulate on the B-share market of Shenzhen Stock Exchange one year after the approval date. (Refer to relevant Public Notice published in designated newspaper on Jun. 10, 2004)

4. According to relevant regulations of GSF [1999] No. 171 Document Tax Rebate Management Trial Measures about Foreign Investment Enterprise Purchasing Equipments made in China, issued by the State Tax Bureau, the Company received VAT totaled to RMB 19,104,156.55 of Equipment made in China 1st Phase and 2nd Phase of “Substituting the Big for the Small” Technology Innovation Project rebated from Shekou branch of Shenzhen State Tax Bureau in July 2004. (Refer to relevant Public Notice published in designated newspaper on Jul. 31, 2004)

5. On nov. 18, 2004, the Company received enterprise income tax for purchasing

equipment made in China totaled RMB 51,640,406.68 in 2000, 2001, 2002 and 2003 rebated by Shenzhen Local Tax Bureau, which was totally used to write off the income tax of this year. (Refer to relevant Public Notice published in designated newspaper on Dec. 10, 2004)

6. On Apr. 30, 2004, it happened significant equipment damage accident about 10# gas wheel power generation set of Shenzhen Xindianli Industrial Co., Ltd., wholly subsidiary of the Company. After the occurrence of the accident, the Company and Nanshan Power Plant paid high attention and organized accident investigation group to investigate the matter promptly. On one hand, the Company actively organized urgent fixing and recovered operation of generation set on Jun. 3, 2004; on the other hand, the Company told equipment manufacturer American General Electronic Company (hereinafter referred to “GE Company”) and Assets Insurance Company, where the Company bought insurance, and the Company actively conduct claiming work. The accident losses was RMB 64,615,800, including direct losses RMB 45,549,800 and profit loss of generating power RMB 13.33 million and other expenses RMB 5,736,000. The suppliers for destroying generation set American General Electronic Company exempted partial payment of commodities USD 3.46 million (translated into about RMB 28,650,000) for changing parts; in addition, Shenzhen branch of China Pacific Assets Insurance Co., Ltd. bearing #10 generating set compensated Xindianli Company RMB 38.8 millions about the accident. The compensation was received on Feb. 6, 2005. Exempting the above exempted payment of commodities and compensation, the net losses of the Company caused by the accident was RMB – 2834200.

7. On Aug. 8, 2003, the Company and Zhongshan Power Development Company signed agreement on principle of share equity transfer and assets and liabilities reorganization of Zhongshan Power Plant and Zhongshan Zhongfa Power Co., Ltd.. Zhongshan Power Development held 100% equity of contributor and 100% punishing right of Zhongshan Power Co., Ltd. and 75% equity of registered capital of Zhongshan Zhongfa Power Co., Ltd.. The Company agreed to join in state-owned enterprise reform of Zhongshan Power Development Co., Ltd. and introduced scientific operating management system and advanced production technology for it, and took part in investment construction of “Substituting the Big for the Small”Technology Innovation Project of Fuel Engines of Zhongshan. At the base, both parties agreed that the Company was assigned 80% equity of contributor of Zhongshan Power Plant held by Zhongshan Power Development Company and 75% share equity of Zhongshan Power Development Co., Ltd. by way of bearing liabilities according to the regulations of the agreement, and Zhongshan Power Development Co., Ltd. and Zhongshan Jiafa Power Co., Ltd. reorganized their assets after share equity transfer accomplished. Through the above share equity transfer and assets and liabilities, “Substituting the Big for the Small”Technology Innovation Project of Fuel Engines of Zhongshan would facilitate to expand operating scale of the Company, enlarge share of power market, and realize trans-division development strategy. Detail plan of about share equity transfer and assets and liabilities reorganization was still in progress of further negotiation. (Public Notice published in designated newspaper on

Aug. 12, 2003 and Aug. 15, 2003)

X. Financial Report

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

XI. Documents Available for Reference

(I) Accounting statements carried with the signatures and seals of the legal representative, financial principal and accountants.

(II) Original of auditors' report carried with the seal of certified public accountants and signatures and seals of CPA

(III) All original of the Company's documents and original manuscript of notices ever disclosed in Securities Times, China Securities and Ta Kung Pao in the report period.

(IV) The Articles of Association

(V) Annual Report promulgated in oversea newspapers

**Board of Directors of
Shenzhen Nanshan Power Station Co., Ltd.
Mar. 8, 2005**

SHENZHEN NANSHAN POWER STATION CO., LTD.

**REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2004**



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**INTERNATIONAL AUDITORS' REPORT TO THE SHAREHOLDERS OF
SHENZHEN NANSHAN POWER STATION CO., LTD.**

(incorporated as a joint stock limited company in the People's Republic of China)

We have audited the accounts on pages 2 to 27 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and international auditors

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

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

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of the Group's affairs as at 31 December 2004 and of its profit and cash flows for the year then ended.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 4 March 2005

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	2004 RMB'000	2003 RMB'000
Turnover	3	2,432,712	1,863,937
Other revenues	3	111,839	94,556
		<u>2,544,551</u>	<u>1,958,493</u>
Fuel costs		(1,391,848)	(1,023,375)
Construction costs		(179,809)	-
Staff costs	4	(119,611)	(85,859)
Depreciation of fixed assets		(157,442)	(137,831)
Amortisation of intangible assets		(8,643)	(2,055)
Operating lease expenses - equipment		(38,204)	(30,375)
Repairs and maintenance expenses		(111,178)	(59,291)
Other operating expenses	5	(37,505)	(62,190)
		<u>500,311</u>	<u>557,517</u>
Operating profit			
Finance costs	6	(26,775)	(12,367)
Share of profit of associated companies		14,015	1,437
		<u>487,551</u>	<u>546,587</u>
Profit before taxation			
Taxation	7	(29,277)	(70,592)
		<u>458,274</u>	<u>475,995</u>
Profit after taxation			
Minority interests		(13,692)	-
		<u>444,582</u>	<u>475,995</u>
Profit attributable to shareholders			
Dividend	8	273,983	256,448
		<u>273,983</u>	<u>256,448</u>
Earnings per share - basic	9	RMB0.81	RMB0.87
		<u>RMB0.81</u>	<u>RMB0.87</u>

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2004**

	Note	2004 RMB'000	2003 RMB'000
Intangible assets	10	(19,653)	(61,045)
Fixed assets	11	1,206,501	1,314,880
Construction in progress	12	1,247,505	231,976
Interests in associated companies	13	16,536	3,622
Investment securities	14	71,885	71,885
Deferred tax assets	25	9,280	-
Current assets			
Inventories	15	249,409	150,316
Trade receivables		234,363	216,190
Amount due from a minority shareholder	17	11,680	23,530
Other receivables, deposits and prepayments		114,076	58,042
Bank balances and cash	16	581,651	494,178
		1,191,179	942,256
Current liabilities			
Trade payables		92,758	5,476
Amount due to a customer on construction contract	18	20,499	-
Amounts due to associated companies	19	4,000	3,238
Amount due to a related company	20	13,865	13,865
Other payables and accrued charges		71,008	140,348
Taxation payable		28,676	48,657
Bank loans, unsecured	21	1,252,734	622,329
		1,483,540	833,913
Net current (liabilities)/assets		(292,361)	108,343
Total assets less current liabilities		2,239,693	1,669,661
Financed by:			
Share capital	22	547,966	547,966
Reserves	23	652,207	521,098
Retained earnings	24		
Proposed final dividend		273,983	256,448
Others		233,980	194,309
Shareholders' funds		1,708,136	1,519,821
Minority interests		102,033	19,840
Bank loans, unsecured	21	429,524	130,000
		2,239,693	1,669,661

Director

Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	2004 RMB'000	2003 RMB'000
Total equity as at 1 January		1,519,821	1,274,445
Declaration of dividend	24	(256,448)	(230,146)
Profit for the year		444,582	475,995
Exchange differences	23	181	60
Utilisation of public welfare fund	23	-	(533)
Total equity as at 31 December		<u>1,708,136</u>	<u>1,519,821</u>

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 RMB'000	2003 RMB'000
Operating activities			
Cash received from customers		2,792,668	2,137,328
Cash received for the government grants		57,566	-
Cash paid to suppliers		(1,787,233)	(1,269,047)
Cash paid to and on behalf of employees		(109,180)	(104,481)
Other cash received		3,533	15,750
Other cash payments		(432,517)	(327,847)
Net cash inflow generated from operations	26(a)	524,837	451,703
Interest paid		(52,442)	(17,934)
PRC income tax paid		(58,346)	(64,456)
Net cash inflow from operating activities		414,049	369,313
Investing activities			
Purchase of fixed assets and payments for construction in progress and intangible assets		(1,107,201)	(582,762)
Purchase of interest in a subsidiary from minority shareholder		-	(56,320)
Sale of fixed assets		13,704	-
Dividend received from an associate company		909	-
Dividend received from investment securities		-	867
Interest received		3,849	5,033
Repayment of loan to/(loan to) a minority shareholder		20,000	(20,000)
Net cash outflow from investing activities		(1,068,739)	(653,182)
Net cash outflow before financing		(654,690)	(283,869)
Financing activities			
New loans raised	26(b)	1,552,258	752,329
Repayment of loans borrowed		(622,329)	(335,000)
Capital contribution from minority shareholders of subsidiaries		68,501	19,840
Dividend paid		(256,448)	(230,138)
Net cash inflow from financing		741,982	207,031
Increase/(decrease) in cash and cash equivalents		87,292	(76,838)
Cash and cash equivalents at 1 January		494,178	570,956
Effect of foreign exchange rate changes		181	60
Cash and cash equivalents at 31 December	16	581,651	494,178

NOTES TO THE ACCOUNTS

1 General

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

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

These accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (collectively “HK GAAP”). This basis of accounting differs in certain respects from that used in the preparation of the PRC statutory accounts. Appropriate restatements have been made to these accounts to conform with HK GAAP. Differences arising from the restatement are not incorporated in the accounting records of the Group.

These accounts have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Consolidation

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

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(d) Investment securities

Investment securities are stated at cost less any provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the consolidated profit and loss account. This impairment loss is written back to the consolidated profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(e) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Land use rights are depreciated on a straight-line basis over the lease period or the remaining licensed operating period of the company concerned, whichever is shorter.

Generators powered by fuel and applied directly for the production of electricity are included in plant and machinery and depreciated over their estimated useful lives, taking into account the estimated residual value, based on actual production hours over the budgeted total production hours of the assets concerned. Other plant and machinery are depreciated over their estimated useful lives of 10 to 20 years, taking into account the estimated residual value, on a straight-line basis.

Other tangible fixed assets, comprising leasehold improvements, buildings, motor vehicles, furniture, fixtures and other equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis, taking into account the estimated residual value. The principal annual rates are as follows:

Buildings	4.5%
Motor vehicles, furniture, fixtures and other equipment	9% - 18%
Leasehold improvements	20% - 50%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the consolidated profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated profit and loss account.

(f) Construction in progress

Construction in progress represents fixed assets 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 fixed assets.

(g) Intangible assets

(i) Negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of the subsidiary acquired at the date of acquisition over the cost of acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the consolidated profit and loss account immediately.

(ii) Other intangible assets

Other 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.

(h) Impairment of long-lived assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets, construction in progress and intangible assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated profit and loss account.

(i) Inventories

Inventories comprise fuel oil, spare parts and consumables and are stated at the lower of cost and net realisable value after provision for obsolete items, and are expensed to fuel costs or repairs and maintenance when used, or capitalised to fixed assets when installed, as appropriate.

Cost includes invoiced value plus procurement costs and is assigned to individual items on the weighted average basis.

(j) Construction contracts in progress

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

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

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

(k) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not

probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(l) Deferred taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

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

(m) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the consolidated profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(n) Accounts and other receivables

Provision is made against accounts and other receivables to the extent they are considered to be doubtful. Accounts and other receivables in the consolidated balance sheet are stated net of such provision.

(o) Cash and cash equivalents

Cash and cash equivalents are carried in the consolidated balance sheet at cost. For the

purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdraft.

(p) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company, if any, are charged to the consolidated profit and loss account on a straight-line basis over the lease periods.

(q) Revenue recognition

Revenue from the sale of electricity is recognised when the electricity is transmitted to the supply centre of Guangdong Guang-dian Power Grid Group Co., Ltd. Shenzhen Power Supply Branch (“SPSB”).

The recognition of the income from construction contracts in progress refers to note 2(j).

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

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

Technique consultancy fee income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Insurance claim is recognised when the right to receive payment is confirmed.

(r) Employee benefits

Retirement benefits

The Group has to make defined contributions to the staff retirement scheme managed by the local government in accordance with the relevant rules and regulations. Contributions to the retirement benefit scheme are charged to the consolidated profit and loss account as and when incurred.

Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the consolidated profit and loss account in the year in which they are incurred.

(t) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

(u) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the only reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets.

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

3 Turnover and revenues

The Group is principally engaged in the generation of electricity, construction of power station and related businesses. Revenues recognised during the year are as follows:

	2004 RMB'000	2003 RMB'000
Turnover		
Sales of electricity (note (a))	2,218,011	1,863,937
Construction of power station	214,701	-
	<u>2,432,712</u>	<u>1,863,937</u>

Other revenues		
Government grants		
- value-added tax refunds (note (b))	-	72,906
- income tax refunds (note (c))	51,641	-
- other subsidy	5,925	-
Technique consultancy fee income	3,720	15,750
Interest income	3,849	5,033
Dividend income	-	867
Insurance claim (note (d))	38,800	-
Others	7,904	-
	<u>111,839</u>	<u>94,556</u>
Total revenues	<u>2,544,551</u>	<u>1,958,493</u>

(a) Amount represents sales of electricity to SPSB at the prices as approved by the Shenzhen Commodity Bureau, less value-added tax.

- (b) Pursuant to various circulars issued by the Shenzhen Municipal Administration of State Taxation and local government authorities, the Group received a refund on value-added tax paid in 2003. The refund was recognised upon assessment and approval by the relevant authorities. Pursuant to the circular “Shenguoshuifa [2002] No.415” issued by the Shenzhen Municipal Administration of State Taxation on 19 December 2002, value-added tax paid by the Group after 1 January 2003 would not be refunded.
- (c) Pursuant to various circulars issued by the Shenzhen local taxation authority and local government authorities, the Group received refunds on income tax paid as subsidies for domestic purchase of machineries for the years from 2000 to 2003. The refunds are recognised upon approval by the relevant authorities.
- (d) Insurance claim represents the compensation from an insurance company for the damage on the generator caused by accident during the year.

Primary reporting format – business segments

The Group is organised on a localised basis into two main business segments:

- Sales of electricity
- Construction of power station

Other operations of the Group mainly comprise the corporate administrative, investment in associated companies, none of which is of a sufficient size to be reported separately.

	Sales of electricity		Construction of power station		Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	<u>2,218,011</u>	<u>1,863,937</u>	<u>214,701</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,432,712</u>	<u>1,863,937</u>
Segment results	<u>455,887</u>	<u>557,850</u>	<u>40,384</u>	<u>-</u>	<u>4,040</u>	<u>(333)</u>	500,311	557,517
Unallocated costs							-	-
Operating profit							500,311	557,517

Finance costs							(26,775)	(12,367)
Share of profits of associated companies	-	-	-	-	14,015	1,437	14,015	1,437
Profit before taxation							487,551	546,587
Taxation							(29,277)	(70,592)
Profit after taxation							458,274	475,995
Minority interests							(13,692)	-
Profit attributable to shareholders							<u>444,582</u>	<u>475,995</u>
Segment assets	3,662,665	2,497,572	24,848	-	19,184	2,380	3,706,697	2,499,952
Interests in associated companies	-	-	-	-	16,536	3,622	16,536	3,622
Total assets							<u>3,723,233</u>	<u>2,503,574</u>
Segment liabilities	1,847,910	952,197	57,932	-	7,222	11,716	<u>1,913,064</u>	<u>963,913</u>
Capital expenditure	1,129,501	591,109	2,826	-	541	-	1,132,868	591,109
Depreciation	156,937	137,831	496	-	9	-	157,442	137,831
Amortisation charge	<u>8,643</u>	<u>2,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,643</u>	<u>2,055</u>

There are no material sales or other transactions between the business segments.

4 Staff costs

	2004 RMB'000	2003 RMB'000
Wages and salaries	37,314	30,701
Bonuses	61,998	77,621
Retirement scheme contributions (note (a))	7,043	3,829
Allowances and others	13,712	1,660
Bonuses refunded (note (b))	(456)	(27,952)
	<u>119,611</u>	<u>85,859</u>

- (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% (2003: 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 2003, directors and management staff of the Group are required to return all or part of the bonuses received.

5 Other operating expenses

Other operating expenses include the following:

	2004 RMB'000	2003 RMB'000
Provision for doubtful debts	-	157
Net exchange loss	372	706
(Gain)/loss on disposal of fixed assets	(5,363)	198
	<u> </u>	<u> </u>

6 Finance costs

	2004 RMB'000	2003 RMB'000
Interest on bank loans	52,442	17,934
Less: amount capitalised in construction in progress (note 12)	(25,667)	(5,567)
	<u> </u>	<u> </u>
	<u>26,775</u>	<u>12,367</u>

The average capitalisation rate applied to funds borrowed generally and used for the development of construction in progress was 4.7% (2003: 3.5%) per annum.

7 Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	2004 RMB'000	2003 RMB'000
Current taxation-PRC income tax		
The Group	38,365	70,377
The associated companies	192	215
Deferred taxation (note 25)	(9,280)	-
	<u> </u>	<u> </u>
	<u>29,277</u>	<u>70,592</u>

- (a) The companies comprising the Group and the associated companies are subject to income tax rate in their respective jurisdictions. The PRC enterprise income tax rate applicable to those companies incorporated in Shenzhen, the PRC is 15% which is the preferential income tax rate for enterprises established in the

Shenzhen Special Economic Zone.

- (b) The subsidiaries, Shenzhen New Power Industrial Co., Ltd. (“SNP”) and Shenzhen Shennan Power Gas Turbine Engineering Technique Co., Ltd. (“Shennan Engineering”), are both sino-foreign joint venture and engaged in power generation business and construction and technique consulting service for certain type power station respectively. They are both entitled to a two years tax exemption followed by three years of 50% tax reduction, commencing from the first profit making year net of losses carried forward. The first profit making year of SNP and Shennan Engineering are 2002 and 2004 respectively. The income tax of SNP was provided at the rate of 7.5% (2003: Nil) for the year and no income tax was provided for Shennan Engineering for the year (2003: Nil).

The taxation on the Group’s profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2004 RMB’000	2003 RMB’000
Profit before taxation	487,551	546,587
Calculated at a taxation rate of 15% (2003: 15%)	73,133	81,988
Profit earned in the tax holiday period	(35,522)	(14,431)
Income not subject to taxation	(8,453)	(732)
Expenses not deductible for taxation purposes	685	3,717
Reversal of the loss unrecognised in prior years	(1,910)	-
Unrecognised tax losses	1,344	50
Taxation charge	<u>29,277</u>	<u>70,592</u>

8 Dividend

	2004 RMB’000	2003 RMB’000
Final, proposed	<u>273,983</u>	<u>256,448</u>

At a meeting held on 4 March 2005 the directors declared a final dividend of RMB0.500 (2003: RMB0.468) per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

9 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB444,582,000 (2003: RMB475,995,000) and the number of shares in issue of 547,966,000 (2003: 547,966,000).

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

10 Intangible assets

	Negative goodwill (note (a))	Amounts paid for the construction of electricity output facilities (note (b))	Amounts paid for the construction of generator facilities (note (c))	Software	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2004					
Opening net book amount	(68,397)	7,352	-	-	(61,045)
Addition	-	-	50,000	35	50,035
Amortisation for the year	4,885	(5,190)	(8,333)	(5)	(8,643)
Closing net book amount	<u>(63,512)</u>	<u>2,162</u>	<u>41,667</u>	<u>30</u>	<u>(19,653)</u>
At 31 December 2004					
Cost	(73,282)	81,900	50,000	35	58,653
Accumulated amortisation	9,770	(79,738)	(8,333)	(5)	(78,306)
Net book amount	<u>(63,512)</u>	<u>2,162</u>	<u>41,667</u>	<u>30</u>	<u>(19,653)</u>
At 31 December 2003					
Cost	(73,282)	81,900	-	-	8,618
Accumulated amortisation	4,885	(74,548)	-	-	(69,663)
Net book amount	<u>(68,397)</u>	<u>7,352</u>	<u>-</u>	<u>-</u>	<u>(61,045)</u>

- (a) The negative goodwill represents the excess of the fair value of the Group's share of the net assets of a subsidiary at the date of acquisition over the cost of acquisition, as adjusted by the amount of dividend waived (net of tax) by a former minority shareholder and is amortised over the remaining weighted average useful life of non-monetary assets of the subsidiary acquired of 15 years.
- (b) The amounts were paid to SPSB for the construction of relevant facilities in respect of increase in electricity output by the Group and are amortised over the useful life of the facilities of 10 years.
- (c) Pursuant to an agreement entered between the Company, Zhongshan City Power Development Company Limited ("Zhongshan Power"), a minority shareholder of a subsidiary and Zhongshan Zhongfa Power Company Limited ("Zhongfa Power"), Zhongshan Jiafa Power Company Limited ("Jiafa Power") 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 a period from 27 September 2004, when the new generator facilities started the commercial operation, to 31 December 2009.

11 Fixed assets

	Land use rights and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles, furniture, fixtures and other equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost					
At 1 January 2004	129,615	2,162,147	56,048	-	2,347,810
Additions and reclassification	3,925	(2,757)	12,945	-	14,113
Transfer from construction in progress (note 12)	30,276	1,768	9,795	11,352	53,191
Disposals	-	(218,359)	(8,321)	-	(226,680)
At 31 December 2004	163,816	1,942,799	70,467	11,352	2,188,434
Accumulated depreciation and impairment					
At 1 January 2004	58,630	935,605	38,695	-	1,032,930
Depreciation charge	5,936	133,281	16,215	2,010	157,442
Disposals	-	(203,801)	(4,638)	-	(208,439)
At 31 December 2004	64,566	865,085	50,272	2,010	981,933
Net book value					
At 31 December 2004	99,250	1,077,714	20,195	9,342	1,206,501
At 31 December 2003	70,985	1,226,542	17,353	-	1,314,880

(a) The land occupied by the Group is located in the PRC and the land use rights are for periods of 20 to 30 years.

12 Construction in progress

	2004 RMB'000	2003 RMB'000
At 1 January	231,976	54,864
Finance cost capitalised (note 6)	25,667	5,567
Additions	1,043,053	563,683
Transfer to fixed assets (note 11)	(53,191)	(392,138)
At 31 December	<u>1,247,505</u>	<u>231,976</u>

The amount mainly represents the new generators under construction as at 31 December 2004.

13 Interests in associated companies

	2004 RMB'000	2003 RMB'000
Share of net assets	<u>16,536</u>	<u>3,622</u>

As at 31 December 2004, the Company has equity interest in the following unlisted companies which are companies incorporated with limited liability and operated in the PRC:

Name	Registered/ paid up capital	Attributable equity interest		Principal activities
		Held directly	Held indirectly	
Shenzhen Server Petrochemical Supplying Co., Ltd. ("Shenzhen Server")	RMB55,300,000	50%	-	Trading of fuel oil
Shenzhen Yueliangwan Renhe Industrial Co., Ltd. ("Yueliangwan Renhe")	RMB12,000,000	-	20%	Management of fuel pipes and trading

14 Investment securities

2004 RMB'000	2003 RMB'000
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Unlisted investments, at cost	71,885	71,885
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As at 31 December 2004, the Company held direct interests in the following unlisted companies which are companies incorporated with limited liability and operated in the PRC:

Name	Registered/ paid up capital	Attributable equity interest	Principal activities
Anhui Province Tongling Shenneng Power Co., Ltd.	RMB392,634,000	10%	Power generation
Shenzhen Energy Environmental Engineering Co., Ltd.	RMB290,000,000	10%	Power generation

15 Inventories

	2004 RMB'000	2003 RMB'000
Fuel oil	139,894	35,771
Spare parts and consumables	116,359	121,389
	<u>256,253</u>	<u>157,160</u>
Less: provision	(6,844)	(6,844)
	<u>249,409</u>	<u>150,316</u>

Total cost of inventories recognised as fuel costs, repairs and maintenance and other expenses of the year was RMB1,475,135,000(2003: RMB1,082,329,000).

At 31 December 2004, inventories with cost amounted to RMB6,844,000 (2003: RMB6,844,000) were carried at zero realisable value.

16 Bank balances and cash

For the purpose of the consolidated cash flow statement, the cash and cash equivalents comprise:

	2004 RMB'000	2003 RMB'000
Bank balances and cash	<u>581,651</u>	<u>494,178</u>

17 Amount due from a minority shareholder

At 31 December 2004, the amount due from a minority shareholder is unsecured and free interest and repayable on demand.

At 31 December 2003, the amount due from a minority shareholder was unsecured and included a loan of RMB20,000,000 which was charged at prevailing bank borrowing rate and for a period of six months. The remaining balance was interest free and repayable on demand.

18 Amount due to a customer on construction contract

	2004 RMB'000	2003 RMB'000
Contract costs incurred plus attributable profits less foreseeable losses to date	123,001	-
Less: progress billings to date	(143,500)	-
Balance included in current liabilities	<u>(20,499)</u>	<u>-</u>

19 Amounts due to associated companies

The amounts represent fees payable for rental of oil tanks and use of pipes for transportation of fuel oil. The amounts are unsecured, interest free and repayable in accordance with the terms of the rental contracts and transportation agreements.

20 Amount due to a related company

The amount due to a related company represents the dividend payable to Shenzhen Jinbiwan Investment Development Company Limited, a company which is owned by certain staff of the Company and also a former minority shareholder of a subsidiary. The amount is unsecured, interest free and repayable on demand.

21 Bank loans, unsecured

	2004 RMB'000	2003 RMB'000
Wholly repayable within one year	1,252,734	622,329
Wholly repayable within two to five years	429,524	130,000
	<u>1,682,258</u>	<u>752,329</u>

22 Share capital

	2004 RMB'000	2003 RMB'000
Registered, issued and fully paid		
85,538,864 shares held by the State	85,539	85,539
289,015,071 shares held by legal persons	289,015	289,015
64,846,135 PRC listed Renminbi shares ("A shares")	64,846	64,846
108,565,928 PRC listed foreign shares ("B shares")	108,566	108,566
Total	<u>547,966</u>	<u>547,966</u>

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

23 Reserves

	Capital reserve (note (a)) RMB'000	Statutory surplus reserve fund (note (b)) RMB'000	Discretionary surplus reserve fund (note (b)) RMB'000	Public welfare fund (note (c)) RMB'000	Exchange difference reserve RMB'000	Total RMB'000
At 1 January 2004	220,373	197,667	22,749	79,677	632	521,098
Appropriation from retained earnings	-	84,029	-	42,014	-	126,043
Transfer to capital reserve	4,885	-	-	-	-	4,885
Exchange differences	-	-	-	-	181	181
At 31 December 2004	<u>225,258</u>	<u>281,696</u>	<u>22,749</u>	<u>121,691</u>	<u>813</u>	<u>652,207</u>
At 1 January 2003	215,488	139,662	22,749	51,208	572	429,679
Appropriation from retained earnings	-	58,005	-	29,002	-	87,007
Transfer to capital reserve	4,885	-	-	-	-	4,885
Exchange differences	-	-	-	-	60	60
Utilisation of public welfare fund	-	-	-	(533)	-	(533)
At 31 December 2003	<u>220,373</u>	<u>197,667</u>	<u>22,749</u>	<u>79,677</u>	<u>632</u>	<u>521,098</u>

(a) Capital reserve mainly comprises (i) the difference between the value of the assets and

the nominal value of shares issued as a result of the conversion of the Company from a joint venture company to a joint stock limited company; (ii) share premiums from the issuance of shares; and (iii) amounts transferred from retained earnings for income that is not available for distribution in the PRC statutory accounts.

- (b) According to relevant PRC regulations, the Company and its subsidiaries established in the PRC should allocate 10% of its profit after taxation (per PRC statutory accounts) to the statutory surplus reserve fund until such reserve reaches 50% of the registered capital. The statutory surplus reserve fund may be applied to make up losses, if any, or to capitalise for share issue purposes but the funds after the issue should amount to not less than 25% of the registered capital.

The discretionary surplus reserve fund can be set up by means of appropriation from the profit after taxation (per PRC statutory accounts) or transfer from the public welfare fund. Subject to the approval of shareholders in general meeting, the reserve can be used to make up any losses, to increase share capital or to pay dividends.

- (c) The Company and its subsidiary established in the PRC are also required to appropriate a certain percentage (as determined by the directors) of the profit after taxation (per PRC statutory accounts) to the public welfare fund. The use of the public welfare fund is restricted to capital expenditure for staff collective welfare facilities which are owned by the Company and its subsidiary. The public welfare fund is not available for distribution to the shareholders (except upon liquidation of the company). Once the capital expenditure on staff welfare facilities is made, an equivalent amount is transferred from the public welfare fund to the discretionary surplus reserve fund.

24 Retained earnings

	2004 RMB'000	2003 RMB'000
At 1 January	450,757	296,800
Profit for the year	444,582	475,995
Transfer to capital reserve	(4,885)	(4,885)
Appropriation to funds	(126,043)	(87,007)
Dividend declared	(256,448)	(230,146)
At 31 December	507,963	450,757

The retained earnings at year end represent:

	2004 RMB'000	2003 RMB'000
A final dividend proposed after year end (note 8)	273,983	256,448

Others	233,980	194,309
	<u>507,963</u>	<u>450,757</u>

(a) As at 31 December 2004, the retained earnings of the Group included accumulated losses of RMB11,221,000 (2003: RMB25,428,000) attributable to the associated companies.

(b) Pursuant to relevant PRC regulations, profit available for distribution to shareholders shall be the lower of the accumulated distributable profits determined according to PRC accounting standards and regulations as stated in the PRC statutory accounts and the accumulated distributable profits determined according to HK GAAP.

25 Deferred taxation

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

The movement on the deferred tax assets account is as follows:

	2004 RMB'000	2003 RMB'000
At 1 January	-	-
Deferred taxation credited to profit and loss account (note 7)	<u>9,280</u>	<u>-</u>
At 31 December	<u>9,280</u>	<u>-</u>

Deferred tax assets	Impairment of assets		Others		Total	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1st January	-	-	-	-	-	-
Credited to profit and loss account	<u>4,608</u>	<u>-</u>	<u>4,672</u>	<u>-</u>	<u>9,280</u>	<u>-</u>
At 31st December	<u>4,608</u>	<u>-</u>	<u>4,672</u>	<u>-</u>	<u>9,280</u>	<u>-</u>

26 Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2004	2003
	RMB'000	RMB'000
Operating profit	500,311	557,517
Depreciation of fixed assets	157,442	137,831
(Gain)/loss on disposal of fixed assets	(5,363)	198
Amortisation of intangible assets	8,643	2,055
Provision for doubtful debts	-	157
Dividend received from investment securities	-	(867)
Interest income	(3,849)	(5,033)
Operating profit before working capital changes	<u>657,184</u>	<u>691,858</u>
Increase in inventories	(99,093)	(63,407)
Increase in amounts due from a minority shareholder, trade receivables, other receivables, deposits and prepayments	(72,458)	(82,393)
Increase/(decrease) in amounts due to a related company and associated companies, a customer on construction contracts, trade payables, other payables and accrued charges	39,204	(94,355)
Net cash inflow generated from operating activities	<u><u>524,837</u></u>	<u><u>451,703</u></u>

(b) Analysis of changes in financing during the year

	Bank loans		Minority interests	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	752,329	335,000	19,840	145,369
Capital contribution from minority shareholder	-	-	68,501	19,840
Minority interest's share of profit	-	-	13,692	-
Acquisition of interest in a subsidiary from minority shareholder	-	-	-	(145,369)
New loans raised	1,552,258	752,329	-	-
Repayment of loans borrowed	(622,329)	(335,000)	-	-
At 31 December	<u><u>1,682,258</u></u>	<u><u>752,329</u></u>	<u><u>102,033</u></u>	<u><u>19,840</u></u>

27 Commitments

(a) Capital commitments for fixed assets

At 31 December 2004, the Group had capital commitments for acquisition and construction of fixed assets as follows:

	2004 RMB'000	2003 RMB'000
Contracted but not provided for	956,290	194,664

(b) Commitments under operating leases

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2004 RMB'000	2003 RMB'000
Not later than one year	30,191	38,160
Later than one year and not later than five years	8,653	37,152
	<u>38,844</u>	<u>75,312</u>

28 Related party transactions

Significant related party transactions which were carried out in the normal course of business during the year, other than those as disclosed elsewhere in these accounts, are as follows:

	2004 RMB'000	2003 RMB'000
The associated companies		
- Shenzhen Server		
Purchase of fuel oil	-	17,555
Leasing of fuel oil tankers	38,204	30,375
- Yueliangwan Renhe		
Fuel oil transportation fee paid	6,912	3,903

29 Subsidiaries

As at 31 December 2004, the Company held interests in the following unlisted subsidiaries all of which are companies with limited liability:

Name	Place of incorporation and operation	Registered / paid up capital	Attributable equity interest		Principal activities
			Held directly	Held indirectly	
Shennan Energy (Singapore) Pte Ltd.	Singapore	SGD1,500,000	100%	-	Investment holding
Hong Kong Syndisome Co., Limited	Hong Kong	HKD200,000	-	100%	Investment holding
Shenzhen New Power Industrial Co., Ltd.	PRC	RMB57,500,000	75%	25%	Power generation
Shennandian (Zhongshan) Power Co., Ltd.	PRC	RMB198,400,000	55%	25%	Power generation (yet to commence operation)
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	RMB99,235,000	40%	15%	Power generation (yet to commence operation)

30 Ultimate holding company

The directors regard the Company has no ultimate holding company.

31 Approval of accounts

The accounts were approved by the board of directors on 4 March 2005.

**SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2004**

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

	Profit after taxation and minority interests for the year ended 31 December 2004 RMB'000	Net assets as at 31 December 2004 RMB'000
As per PRC statutory accounts	439,697	1,771,648
Impact of HK GAAP adjustments		
- Reclassification of negative goodwill arising on the acquisition of interest in a subsidiary from capital reserve account to intangible assets and provision of related amortisation	4,885	(63,512)
	<hr/>	<hr/>
As per HK GAAP accounts	<u>444,582</u>	<u>1,708,136</u>