

# Notes on the Accounts

(Expressed in Hong Kong dollars)

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## 1. Significant Accounting Policies

### (a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the group is set out below.

### (b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost.

### (c) Basis of consolidation

(i) The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

(ii) Goodwill arising on the acquisition of subsidiaries, being the excess of the cost of investments in these companies over the fair value of the Group's share of the separable net assets acquired, is amortized on a straight-line basis to the profit and loss account over its estimated useful life. On disposal of a subsidiary during the year, any attributable amount of purchased goodwill not previously amortized through the profit and loss account is included in the calculation of the profit or loss on disposal.

### (d) Investments in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognized as an expense in the profit and loss account.

### (e) Fixed assets, depreciation and amortization

Fixed assets are stated at cost less accumulated depreciation. The carrying amounts of fixed assets are reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognized as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flow generated by the fixed assets are not discounted to their net present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognized in the profit and loss account on the date of retirement or disposal.

## Notes on the Accounts (Continued)

(Expressed in Hong Kong dollars)

### 1. Significant Accounting Policies (Continued)

#### (e) Fixed assets, depreciation and amortization (Continued)

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives as follows:

##### (i) Land use rights

The cost of acquiring land use rights is amortized in equal annual instalments over the period of the grant or the remaining joint venture period, if shorter.

##### (ii) Buildings

Depreciation is provided to write off the cost of buildings on a straight line basis over the remaining terms of the respective land use rights or their anticipated useful lives, if shorter.

##### (iii) Other fixed assets

Depreciation is calculated to write off the cost of other fixed assets over their anticipated useful lives on a straight line basis as follows:

Plant, machinery and equipment	27 years
Motor vehicles	5 years
Others	3 – 10 years

#### (f) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the profit and loss account as follows:

(i) Revenue arising from sale of electricity is recognized based on electricity supplied as recorded by meters read during the year.

(ii) Interest income is accrued on a time proportion basis on the principal outstanding and at the rate applicable.

#### (g) Consumables

Consumables comprise fuel oil, components and parts and others for own consumption purposes. Fuel oil is stated at cost computed using the weighted average method. Components and parts and others are stated at cost computed using the weighted average method less any provisions for damages or obsolescence.

#### (h) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transactions dates. Monetary assets and liabilities denominated in foreign currencies and the accounts of the People's Republic of China ("PRC") subsidiary are translated into Hong Kong dollars at the market exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account, except for those arising on re-translation at closing rates of the opening net investment in the PRC subsidiary which are taken directly to reserves.

#### (i) Provision for planned maintenance

The PRC subsidiary operates a planned maintenance scheme for its power generating plant, under which the projected maintenance cost for each maintenance cycle is estimated by the directors in consultation with the plant management and by reference to the estimated number of operating hours in a maintenance cycle. The projected maintenance cost is charged to the profit and loss account on the basis of the number of operating hours run by the plants in each year.

## Notes on the Accounts (Continued)

(Expressed in Hong Kong dollars)

### 1. Significant Accounting Policies (Continued)

#### (j) Operating leases

Rentals payable under operating leases are accounted for on a straight line basis over the periods of the respective leases.

#### (k) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallize in the foreseeable future. Future deferred tax benefits are not recognized unless their realization is assured beyond reasonable doubt.

#### (l) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

#### (m) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

#### (n) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

### 2. Turnover

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 13 on the accounts. Turnover represents the invoiced value, net of value added tax, of electricity supplied in Foshan City, Guangdong Province, the PRC. Included in the turnover are additional fuel cost surcharges of \$27.7 million (1999: nil) for electricity supplied.

### 3. Other Income

	2000 \$'000	1999 \$'000
(a) <b>Other revenue</b>		
Interest income	4,357	6,077
VAT refund	—	2,226
	<u>4,357</u>	<u>8,303</u>
(b) <b>Other net income</b>		
Insurance compensation	2,462	—
Net exchange gain	711	58
Agency fee written back	—	5,363
	<u>3,173</u>	<u>5,421</u>

## Notes on the Accounts (Continued)

(Expressed in Hong Kong dollars)

### 4. (Loss)/Profit from Ordinary Activities Before Taxation

(Loss)/Profit from ordinary activities before taxation is arrived at after charging:

	2000 \$'000	1999 \$'000
(a) <b>Finance cost</b>		
Interest on promissory note repayable within five years	2,512	3,467
Interest on other borrowings	66,413	75,379
	<u>68,925</u>	<u>78,846</u>
(b) <b>Other items</b>		
Cost of consumables	496,011	373,359
Provision for planned maintenance	18,737	24,055
Depreciation and amortization	71,652	72,015
Amortization of goodwill	31,621	31,622
Staff cost (including retirement costs of \$586,000 (1999: \$452,000))	11,265	16,659
Operating lease charges on buildings	691	1,181
Auditors' remuneration	642	602
	<u>642</u>	<u>602</u>

### 5. Directors' Remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2000 \$'000	1999 \$'000
Fees	450	532
Other emoluments	2,057	2,517
	<u>2,507</u>	<u>3,049</u>

### 6. Taxation

(a) No provision has been made for Hong Kong profits tax as the Group sustained losses for taxation purposes during the year. The tax charge represents provision for the PRC income tax at 7.5% on the estimated assessable profits of Foshan Shakou Power Plant Co., Ltd. ("Shakou JV") for the year.

(b) Taxation in the consolidated balance sheet represents:

	2000 \$'000	1999 \$'000
Provision for PRC income tax for the year	2,276	11,935
Balance of PRC income tax provision relating to prior years	9,118	15,452
Amount paid during the year	(8,716)	(18,269)
	<u>2,678</u>	<u>9,118</u>
PRC value added tax payable	6,000	7,147
Taxation	<u>8,678</u>	<u>16,265</u>

(c) No provision for deferred taxation has been made as the effect of all timing differences is immaterial.

## Notes on the Accounts (Continued)

(Expressed in Hong Kong dollars)

### 7. (Loss)/Profit Attributable to Shareholders

The (loss)/profit attributable to shareholders includes a profit of \$16,950,000 (1999: \$48,945,000) which has been dealt with in the accounts of the Company.

### 8. Dividends

	2000 \$'000	1999 \$'000
Interim dividend – Nil (1999: 1.5 cents per share)	–	12,435
Proposed final dividend – Nil (1999: 3.5 cents per share)	–	29,016
	<u>–</u>	<u>41,451</u>

### 9. Basic (Loss)/Earnings Per Share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of \$19,576,000 (1999: profit of \$95,820,000) and the weighted average number of 829,018,244 (1999: 829,018,244) shares in issue during the year.

### 10. Related Party Transactions

Name of related company	Nature of transaction	2000 \$'000	1999 \$'000
Gloryson Limited	Rental of office premises	691	1,181
Fuel Company	Purchase of fuel ( <i>Note</i> )	495,426	371,061
Power Auto Center	Provision for vehicle repair services	211	–
Power Construction Corporation and its associate	Interest on loans	66,413	75,379
Hensil Investments Group Limited	Interest on promissory note	2,512	3,467

*Note:* All the values are exclusive of value added tax.

Rentals were paid at market rates. Madam Yip Siu Chun, being the chief executive, a director and a controlling shareholder of the Company, is beneficially interested in Gloryson Limited.

During the year, the Group purchased fuel from Foshan City District Electricity Fuel Supply Company (“Fuel Company”). As at 31 December 2000, amount due to the Fuel Company was \$41.41 million (1999: \$13.28 million). The Fuel Company, being an associate of Foshan City District Electric Power Construction Corporation (“Power Construction Corporation”), is a related party to the Company because Power Construction Corporation is a substantial shareholder of Shakou JV.

During the year, Foshan Power Group Corporation Auto Repairs Center (“Power Auto Center”) rendered motor vehicle repair and maintenance services to certain motor vehicles of Shakou JV for an aggregate consideration of approximately \$211,000. Power Auto Center is a related party to the Company because it is wholly-owned by Power Construction Corporation.

## Notes on the Accounts (Continued)

(Expressed in Hong Kong dollars)

### 10. Related Party Transactions (Continued)

During the year, Shakou JV had outstanding loans due to Power Construction Corporation and its associate pursuant to certain loan agreements entered into between Shakou JV and the respective counterparties. As at 31 December 2000, the outstanding loans amounted to approximately \$618.62 million (1999: \$723.45 million), details of which are disclosed in note 20. Apart from the outstanding loans, as at 31 December 2000, there were amounts due to these parties amounting \$24.08 million (1999: \$58.4 million), which are interest-free.

As at 31 December 2000, the outstanding amount of the promissory note due to Hensil Investments Group Limited ("Hensil Investments") amounted to \$20.16 million (1999: \$33.6 million). Details of the promissory note are disclosed in note 19. Hensil Investments is a related party to the Company because it is a controlling shareholder of the Company.

### 11. Fixed Assets

	Land use rights \$'000	Buildings \$'000	Plant, machinery and equipment \$'000	Motor vehicles \$'000	Others \$'000	The Group Total \$'000	The Company Others \$'000
<b>Cost:</b>							
At 1 January 2000	55,972	142,364	1,638,195	8,017	7,378	1,851,926	2,880
Additions	-	235	-	-	569	804	-
Disposals	-	-	-	-	(69)	(69)	-
At 31 December 2000	55,972	142,599	1,638,195	8,017	7,878	1,852,661	2,880
<b>Accumulated depreciation and amortization:</b>							
At 1 January 2000	9,495	22,831	292,052	6,261	5,140	335,779	2,880
Charge for the year	1,999	5,281	62,216	1,285	871	71,652	-
Written back on disposal	-	-	-	-	(69)	(69)	-
At 31 December 2000	11,494	28,112	354,268	7,546	5,942	407,362	2,880
<b>Net book value:</b>							
At 31 December 2000	44,478	114,487	1,283,927	471	1,936	1,445,299	-
At 31 December 1999	46,477	119,533	1,346,143	1,756	2,238	1,516,147	-

All of the Group's buildings are located in the PRC. Land use rights relate to the right to use the land of Shakou JV, on which the Group's buildings and plant are situated, for period to 1 May 2043.

## Notes on the Accounts (Continued)

(Expressed in Hong Kong dollars)

### 12. Goodwill

	The Group	
	2000 \$'000	1999 \$'000
Balance brought forward	736,425	768,047
Amortization for the year	(31,621)	(31,622)
Balance carried forward	<u>704,804</u>	<u>736,425</u>

### 13. Interest in Subsidiaries

#### (a) The Company

	2000 \$'000	1999 \$'000
Unlisted shares, at cost	1,338,500	1,338,500
Amounts due from subsidiaries	8,037	36,979
	<u>1,346,537</u>	<u>1,375,479</u>

The amounts due from subsidiaries are unsecured, interest-free and not expected to be repaid within one year.

#### (b) Details of the Company's subsidiaries are as follows

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Hensil Worldwide Inc.	British Virgin Islands	Ordinary US\$2	100%	–	Investment holding
Lipromate Limited	Hong Kong	Ordinary \$2	100%	–	Provision of financial and management services
Foshan Shakou Power Plant Co., Ltd.	The PRC	US\$85,000,000 (Note)	–	80%	Generation and sale of electricity

Note : This represents the registered and paid up capital of Shakou JV, a sino-foreign equity joint venture in Foshan City, the PRC. Pursuant to an approval document issued by the Guangdong Province Foreign Trade and Economic Commission dated 14 March 1997, the joint venture period was extended to 30 years expiring on 16 April 2023.

## Notes on the Accounts (Continued)

(Expressed in Hong Kong dollars)

### 14. Consumables

<b>The Group</b>	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Fuel oil	472	2,366
Components and parts	5,514	20,550
Others	894	1,094
	<b>6,880</b>	<b>24,010</b>

### 15. Trade and other receivables

Included in the trade and other receivables is a trade debtor with the following ageing analysis:

	<b>The Group</b>		<b>The Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Current	<b>77,138</b>	106,647	–	–

Debts are due within one month from the date of billing. All of the trade and other receivables are expected to be recovered within one year.

### 16. Cash and Cash Equivalents

	<b>The Group</b>		<b>The Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Deposits with banks	45,879	42,289	45,879	42,289
Cash at bank and in hand	105,407	193,364	184	389
	<b>151,286</b>	235,653	<b>46,063</b>	42,678

### 17. Trade and Other Payables

	<b>The Group</b>		<b>The Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Creditors and accrued charges	49,728	49,207	1,680	1,823
Amounts due to related companies	65,492	71,678	–	–
	<b>115,220</b>	120,885	<b>1,680</b>	1,823

Included in trade and other payables are trade creditors with the following ageing analysis:

	<b>The Group</b>		<b>The Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Due within 1 month or on demand	<b>67,800</b>	13,275	–	–

All of the trade and other payables are expected to be settled within one year.



## Notes on the Accounts (Continued)

(Expressed in Hong Kong dollars)

### 18. Provision for Planned Maintenance

<b>The Group</b>	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Balance at 1 January	<b>65,459</b>	42,240
Provision made for the year	<b>18,737</b>	24,055
Amount utilized during the year	<b>(56,091)</b>	(836)
	<u><b>28,105</b></u>	<u>65,459</u>
Balance at 31 December	<b>28,105</b>	65,459

The amount of provision for planned maintenance expected to be settled after more than one year is \$21,898,000 (1999: nil).

### 19. Promissory Note – Unsecured

	<b>The Group</b>		<b>The Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
The note is repayable within the periods as follows:				
Within one year	<u><b>13,438</b></u>	13,438	<u><b>13,438</b></u>	13,438
Between one to two years	<b>6,720</b>	13,438	<b>6,720</b>	13,438
Between two to five years	–	6,720	–	6,720
	<u><b>6,720</b></u>	<u>20,158</u>	<u><b>6,720</b></u>	<u>20,158</u>
	<u><b>20,158</b></u>	<u>33,596</u>	<u><b>20,158</b></u>	<u>33,596</u>

The non-transferable promissory note bears interest at best Hong Kong dollar lending rate and is repayable half-yearly by 8 equal instalments. The promissory note is due to Hensil Investments.

### 20. Loans – Unsecured

<b>The Group</b>	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Loans are repayable within the periods as follows:		
Within one year	<u><b>106,117</b></u>	122,002
Between one to two years	<b>88,948</b>	88,948
Between two to five years	<b>266,845</b>	266,845
After five years	<b>156,708</b>	245,656
	<u><b>512,501</b></u>	<u>601,449</u>
	<u><b>618,618</b></u>	<u>723,451</u>

## Notes on the Accounts (Continued)

(Expressed in Hong Kong dollars)

### 20. Loans – Unsecured (Continued)

The loans are denominated in Renminbi bearing interest at a fixed interest rate of 10.08% per annum and repayable half-yearly by 20 equal instalments. These loans are due to Power Construction Corporation and its associate.

### 21. Share Capital

	2000		1999	
	Number of shares '000	Nominal value \$'000	Number of shares '000	Nominal value \$'000
<i>Authorized:</i>				
Shares of \$0.10 each	<b>1,100,000</b>	<b>110,000</b>	1,100,000	110,000
<i>Issued and fully paid:</i>				
Balance brought forward & carried forward	<b>829,018</b>	<b>82,902</b>	829,018	82,902

### 22. Reserves

#### The Group

	Share premium (Note a) \$'000	Capital redemption reserve (Note a) \$'000	Reserve fund (Note b) \$'000	Enterprise development fund (Note b) \$'000	Profit and loss account \$'000	Total \$'000
Balance at 1 January 1999	1,041,444	297	8,085	8,085	241,023	1,298,934
Profit for the year	–	–	–	–	95,820	95,820
Transfer to PRC subsidiary's reserves	–	–	5,690	5,690	(11,380)	–
Dividends	–	–	–	–	(41,451)	(41,451)
Balance at 31 December 1999	<b>1,041,444</b>	<b>297</b>	<b>13,775</b>	<b>13,775</b>	<b>284,012</b>	<b>1,353,303</b>
Balance at 1 January 2000	1,041,444	297	13,775	13,775	284,012	1,353,303
Loss for the year	–	–	–	–	(19,576)	(19,576)
Transfer to PRC subsidiary's reserves	–	–	580	580	(1,160)	–
Balance at 31 December 2000	<b>1,041,444</b>	<b>297</b>	<b>14,355</b>	<b>14,355</b>	<b>263,276</b>	<b>1,333,727</b>

Notes: (a) The application of the share premium account and capital redemption reserve is governed by Section 48B and 49H respectively of the Hong Kong Companies Ordinance.

(b) In accordance with the accounting principles and financial regulations applicable in the PRC, the PRC subsidiary is required to transfer part of its profit after taxation to the reserve fund and the enterprise development fund. The transfer amounts are determined by the subsidiary's board of directors in accordance with the joint venture agreement and the transfers are made before profit distribution to the joint venture partners. Reserve fund can only be used to make good losses, if any, and for increasing capital. Enterprise development fund can only be used for increasing capital.

## Notes on the Accounts (Continued)

(Expressed in Hong Kong dollars)

### 22. Reserves (Continued)

#### The Company

	Share premium \$'000	Capital redemption reserve \$'000	Profit and loss account \$'000	Total \$'000
Balance at 1 January 1999	1,041,444	297	221,990	1,263,731
Profit for the year	–	–	48,945	48,945
Dividends	–	–	(41,451)	(41,451)
	<u>1,041,444</u>	<u>297</u>	<u>229,484</u>	<u>1,271,225</u>
Balance at 31 December 1999	1,041,444	297	229,484	1,271,225
Balance at 1 January 2000	1,041,444	297	229,484	1,271,225
Profit for the year	–	–	16,950	16,950
	<u>1,041,444</u>	<u>297</u>	<u>246,434</u>	<u>1,288,175</u>
Balance at 31 December 2000	1,041,444	297	246,434	1,288,175

The distributable reserves of the Company at 31 December 2000 amounted to \$246,434,000 (1999: \$229,484,000).

### 23. Notes on the Cash Flow Statement

#### (a) Reconciliation of (loss)/profit before taxation to net cash inflow from operating activities

	2000 \$'000	1999 \$'000
(Loss)/profit before taxation	(13,065)	141,537
Interest income	(4,357)	(6,077)
Interest expenses	68,925	78,846
Depreciation and amortization	71,652	72,015
Amortization of goodwill	31,621	31,622
Agency fee written back	–	(5,363)
Decrease/(increase) in consumables	17,130	(17,208)
Decrease/(increase) in trade and other receivables	35,273	(69,486)
Increase/(decrease) in trade and other payables	30,026	(35,939)
Decrease in PRC value added tax payable	(1,147)	(12,682)
(Decrease)/increase in provision for planned maintenance	(37,354)	23,219
	<u>198,704</u>	<u>200,484</u>
Net cash inflow from operating activities	198,704	200,484

## Notes on the Accounts (Continued)

(Expressed in Hong Kong dollars)

### 23. Notes on the Cash Flow Statement (Continued)

#### (b) Analysis of changes in financing during the year

	<b>Promissory note \$'000</b>	<b>Loans \$'000</b>
Balance at 1 January 1999	47,034	828,371
Repayments	(13,438)	(104,920)
	<u>33,596</u>	<u>723,451</u>
Balance at 31 December 1999	33,596	723,451
	<u>33,596</u>	<u>723,451</u>
Balance at 1 January 2000	33,596	723,451
Repayments	(13,438)	(104,833)
	<u>20,158</u>	<u>618,618</u>
Balance at 31 December 2000	20,158	618,618

### 24. Commitments Under Operating Leases

At 31 December 2000, the Group and the Company had commitments under operating leases to make payments in respect of premises in the next year as follows:

	<b>2000 \$'000</b>	<b>1999 \$'000</b>
Leases expiring:		
Within 1 year	612	–
After 1 year but within 5 years	–	691
	<u>612</u>	<u>691</u>

### 25. Contingent Liabilities

Shakou JV had a syndicated loan denominated in US dollar which was fully repaid on 23 March 1998. Under the loan agreement, Shakou JV is required to bear any PRC tax payable in respect of interest paid to the lenders. By a letter dated 17 March 1998, the Company's former ultimate holding company, Foshan Development Company Limited agreed to bear any tax liabilities, including penalties, if any which may arise from the interest paid on the syndicated loan. The estimated tax which may be payable is approximately \$43 million, excluding penalties.