

## NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

### 1. Basis of Preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (the “HKSA”), except that they have not reviewed the comparative information relating to the six months ended 30 June 2000. KPMG’s independent review report to the Board of Directors is included on page 12.

The interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities (the “Stock Exchange”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the HKSA except that comparative figures for the cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Listing Rules.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the Company’s statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2000 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 17 April 2001.

The same accounting policies adopted in the 2000 annual accounts have been applied to the interim financial report except for the changes in accounting policies as explained in note 2 below and the adoption of the accounting policy as set out below in order to comply with SSAP 31 “Impairment of assets” issued by the HKSA.

#### Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired:

- property, plant and equipment; and
- goodwill.

If any such indication exists, the asset’s recoverable amount is estimated. For goodwill that is amortized over a period of exceeding 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

#### (a) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where there are assets that do not generate cash flows largely independent of those from other assets, recoverable amounts are determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit).

#### (b) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. Impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

### 2. Change in Accounting Policy

During 2001, the Group adopted SSAP 17 (revised) “Property, plant and equipment” and SSAP 28 “Provisions, contingent liabilities and contingent assets” issued by the HKSA.

The People’s Republic of China (“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. In prior years, the projected maintenance cost was charged to the profit and loss account on the basis of the number of operating hours run by the power plant in each year.

## 2. Change in Accounting Policy (Continued)

With effect from 1 January 2001, the Group adopted the accounting policies as set out below in order to comply with SSAP 17 (revised) "Property, plant and equipment" and SSAP 28 "Provision, contingent liabilities and contingent assets" issued by the HKSA. The new accounting policies have been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods. As a result of the new accounting policies, the Group's loss for the six months ended 30 June 2001 has been increased by HK\$2,344,000 (2000: HK\$2,280,000) and the net assets as at 30 June 2001 have been increased by HK\$23,946,000 (31 December 2000: HK\$26,290,000).

### (a) Costs of planned maintenance

Where costs of planned maintenance, which can be measured reliably, are identified as a separate component of the asset and it is probable that future economic benefits associated with the asset will flow to the Group, the costs are capitalized and depreciated over the useful life of the component.

### (b) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

## 3. Turnover

The principal activity of the Group is generation and sale of electricity. Turnover represents the invoiced value, net of value added tax, of electricity supplied in Foshan City, Guangdong Province, the PRC. Included in the turnover is an additional fuel cost surcharge of HK\$9.1 million (2000: HK\$18.1 million) for electricity supplied.

## 4. Loss from Ordinary Activities Before Taxation

Loss from ordinary activities before taxation is arrived at after charging:

|   | Six months ended 30 June |               |
|---|--------------------------|---------------|
|   | 2001                     | 2000          |
|   | HK\$'000                 | HK\$'000      |
| (a) <b>Finance cost</b>                                 |                          |               |
| Interest on promissory note repayable within five years | 699                      | 1,363         |
| Interest on other borrowings                            | 23,763                   | 34,333        |
|   | <u>24,462</u>            | <u>35,696</u> |
| (b) <b>Other items</b>                                  |                          |               |
| Depreciation and amortization                           | 44,946                   | 44,479        |
|   | <u>44,946</u>            | <u>44,479</u> |

## 5. Taxation

No provision has been made for Hong Kong profits tax as the Group sustained losses in Hong Kong for taxation purposes during the period. The tax charge represents provision for the income tax levied by the PRC at 18% (2000: 7.5%) on the estimated assessable profits of the Company's subsidiary, 佛山市沙口發電廠有限公司 (Foshan Shakou Power Plant Co. Ltd.) ("Shakou JV"), for the period.

## 6. Basic Loss Per Share

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$9,962,000 (2000: HK\$17,394,000) and the weighted average number of 829,018,244 (2000: 829,018,244) shares in issue during the period.

## 7. Related Party Transactions

| Name of related company  | Nature of transaction       | Six months ended 30 June |                  |
|--|-----------------------------|--------------------------|------------------|
|  |                             | 2001<br>HK\$'000         | 2000<br>HK\$'000 |
| Gloryson Limited   | Rental of office premises   | 346                      | 346              |
| Foshan City District Electricity Fuel Supply Company                           | Purchase of fuel (Note)     | 208,517                  | 219,347          |
| Foshan City District Electric Power Construction Corporation and its associate | Interest on loans           | 23,763                   | 34,333           |
| Hensil Investments Group Limited   | Interest on promissory note | 699                      | 1,363            |

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

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

During the period, the Group purchased fuel from 佛山市區電力燃料公司 (Foshan City District Electricity Fuel Supply Company) ("Fuel Company"). As at 30 June 2001, amount due to Fuel Company was HK\$63.79 million (31 December 2000: HK\$41.41 million). Fuel Company, being an associate of 佛山市區電力建設總公司 (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 period, 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 30 June 2001, the outstanding loans, including an overdue amount of HK\$30.93 million (31 December 2000: HK\$17.17 million), amounted to approximately HK\$587.91 million (31 December 2000: HK\$618.62 million). Apart from the outstanding loans, as at 30 June 2001, there were overdue interests payable to these parties amounting to HK\$30.30 million (31 December 2000: HK\$24.08 million), which are interest-free.

As at 30 June 2001, the outstanding amount of the promissory note due to Hensil Investments Group Limited ("Hensil Investments"), including an overdue amount of HK\$6.72 million (31 December 2000: HK\$Nil), amounted to HK\$20.16 million (31 December 2000: HK\$20.16 million). Hensil Investments is a related party to the Company because it is a controlling shareholder of the Company.

## 8. Trade and Other Receivables

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

|                       | 30 June<br>2001<br>HK\$'000 | 31 December<br>2000<br>HK\$'000 |
|-----------------------|-----------------------------|---------------------------------|
| Current               | 91,288                      | 77,138                          |
| 1 to 3 months overdue | 67,372                      | –                               |
|                       | <u>158,660</u>              | <u>77,138</u>                   |

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.

## 9. Trade and Other Payables

|                                  | <b>30 June<br/>2001<br/>HK\$'000</b> | 31 December<br>2000<br>HK\$'000 |
|----------------------------------|--------------------------------------|---------------------------------|
| Creditors and accrued charges    | <b>37,688</b>                        | 49,728                          |
| Amounts due to related companies | <b>94,086</b>                        | 65,492                          |
|                                  | <b><u>131,774</u></b>                | <u>115,220</u>                  |

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

|  | <b>30 June<br/>2001<br/>HK\$'000</b> | 31 December<br>2000<br>HK\$'000 |
|--|--------------------------------------|---------------------------------|
| Due within 1 month or on demand        | <b>55,782</b>                        | 67,800                          |
| Due after 1 month but within 3 months  | <b>8,007</b>                         | –                               |
| Due after 3 months but within 6 months | <b>9,748</b>                         | –                               |
|  | <b><u>73,537</u></b>                 | <u>67,800</u>                   |

## 10. Reserves

|  | Share<br>premium<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Reserve<br>fund<br>HK\$'000 | Enterprise<br>development<br>fund<br>HK\$'000 | Retained<br>profits<br>HK\$'000 | Total<br>HK\$'000       |
|--|------------------------------|--|-----------------------------|---|---------------------------------|-------------------------|
| At 1 January 2001  |                              |  |                             |   |                                 |                         |
| – as previously reported   | 1,041,444                    | 297  | 14,355                      | 14,355  | 263,276                         | 1,333,727               |
| – prior period adjustments<br>arising from change in<br>accounting policy for<br>planned maintenance | –                            | –  | –                           | –   | 26,290                          | 26,290                  |
| – as restated  | 1,041,444                    | 297  | 14,355                      | 14,355  | 289,566                         | 1,360,017               |
| Loss for the period  | –                            | –  | –                           | –   | (9,962)                         | (9,962)                 |
| At 30 June 2001  | <b><u>1,041,444</u></b>      | <b><u>297</u></b>                            | <b><u>14,355</u></b>        | <b><u>14,355</u></b>                          | <b><u>279,604</u></b>           | <b><u>1,350,055</u></b> |

## 11. 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 Shakou JV'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 HK\$43 million, excluding penalties.

## 12. Approval of the Interim Financial Report

The interim financial report was approved by the Board of Directors on 21 September 2001.