Notes on the Accounts

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants (the "HKSA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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.

The consolidated accounts include the accounts of the Company and all its subsidiaries (the "Group") 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.

(c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see Note 1(g)).

(d) Goodwill

Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. Amortization is charged to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Goodwill is stated in the consolidated balance sheet at cost less accumulated amortization and any impairment losses (see Note 1(g)).

(e) Fixed assets, depreciation and amortization

Fixed assets are stated at cost less accumulated depreciation and any impairment losses (see Note 1(g)).

Subsequent expenditure relating to a fixed asset that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognized as an expense in the period in which it is incurred.

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

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Depreciation and amortization are 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	2 - 10 years

(f) Cost 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.

(g) 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 or an impairment loss previously recognized no longer exists or may have decreased:

— fixed assets;
— components for planned maintenance;
— investments in subsidiaries; and
— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. For goodwill that is amortized over 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.

(i) 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 an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Impairment of assets *(Continued)*

(ii) 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. An 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.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognized.

(h) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(i) 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.

(j) 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.

(k) 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 of economic benefits 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 of economic benefits is remote.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) 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.

(m) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The results of a subsidiary established in the People's Republic of China (the "PRC") are translated into Hong Kong dollars at the average exchange rate for the year; balance sheet items are translated into Hong Kong dollars at the rate of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(n) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(o) Borrowing costs

Borrowing costs are expensed in the profit and loss account 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 or sale.

(p) Employee benefits

(i) Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognized as an expense in the profit and loss account as incurred.

(iii) Contributions to the retirement plan of the PRC subsidiary are recognized as an expense in the profit and loss account when the contributions become due in accordance with the terms of the plan.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits *(Continued)*

(iv) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognized at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(q) 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.

2. CHANGE IN ACCOUNTING POLICY

In previous years, the results of the PRC subsidiary were translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. With effect from 1 January 2002, in order to comply with SSAP11 (revised) "Foreign currency translation" issued by the HKSA, the results of the PRC subsidiary is translated at the average exchange rate for the year. The effect of this change is not material to the accounts and therefore, the comparative figures have not been restated.

3. TURNOVER

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 15 on the accounts. Turnover represents the invoiced value, net of value added tax, of electricity supplied in Foshan City, Guangdong Province, the PRC and additional fuel cost surcharges of $94.0 million (2001: $21.1 million) for electricity supplied, representing an adjustment for tariff of electricity supplied.

4. SEGMENT REPORTING

The Group's results are almost entirely attributable to its generation and sale of electricity in the PRC. Accordingly, no segmental analysis is provided.

5. OTHER NET INCOME

	2002	2001
	$'000	*$'000*
Insurance compensation	**590**	–
Electricity purchase expense written back	**1,336**	–
Net exchange gain	**–**	8
Others	**285**	396
	2,211	404

Notes on the Accounts

(Expressed in Hong Kong dollars)

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2002 **$'000**	2001 *$'000*
(a) Finance costs		
Interest on promissory note repayable within five years	**97**	1,026
Interest on bank advances and other borrowings	**34,545**	46,049
	34,642	47,075
(b) Other items		
Cost of consumables	**430,304**	461,451
Depreciation and amortization (other than for goodwill)	**89,526**	89,179
Staff costs (including retirement costs of $955,000 (2001: $783,000))	**25,158**	16,700
Operating lease charges on buildings	**645**	686
Auditors' remuneration	**780**	843
Net exchange loss	**69**	—

7. DIRECTORS' REMUNERATION

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

	2002 **$'000**	2001 *$'000*
Fees	**773**	441
Other emoluments	**1,579**	2,101
	2,352	2,542

8. TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2002 **$'000**	2001 *$'000*
Provision for PRC income tax for the year	**29,182**	13,943
Under-provision in respect of prior year	**2,834**	—
	32,016	13,943
Deferred taxation *(Note 16)*	**(4,492)**	—
	27,524	13,943

No provision has been made for Hong Kong profits tax as the Group sustained losses in Hong Kong for taxation purposes during the year. The tax charge represents provision for the PRC income tax levied at 18% (2001: 18%) 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 year.

Notes on the Accounts

(Expressed in Hong Kong dollars)

8. TAXATION *(Continued)*

(b) Taxation in the consolidated balance sheet represents:

	2002 **$'000**	2001 $'000
Provision for PRC income tax for the year	**29,182**	13,943
Under-provision in respect of prior year	**2,834**	—
Balance of PRC income tax provision relating to prior years	**14,662**	2,678
Amount paid during the year	**(15,799)**	(1,959)
	30,879	14,662
PRC value added tax payable/(recoverable)	**1,475**	(2,855)
Taxation	**32,354**	11,807

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a loss of $5,436,000 (2001: $3,273,000) which has been dealt with in the accounts of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2002 **$'000**	2001 $'000
Amount of consolidated profit attributable to shareholders including a loss dealt with in the Company's accounts	**(5,436)**	(3,273)
Final dividend from subsidiary attributable to the profits of the previous financial year, approved and paid during the year	**–**	20,000
(Loss)/profit for the year *(Note 26)*	**(5,436)**	16,727

10. DIVIDENDS

(a) Dividends attributable to the year

	2002 **$'000**	2001 $'000
Final dividend proposed after the balance sheet date of 1.8 (2001: 1.5) cents per share	**14,922**	12,435

The final dividend proposed after the balance sheet date has not been recognized as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2002 **$'000**	2001 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 1.5 cents per share (2001: Nil)	**12,435**	—

Notes on the Accounts

(Expressed in Hong Kong dollars)

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to shareholders of $49,583,000 (2001: $12,875,000) and 829,018,244 (2001: 829,018,244) shares in issue during the year.

The computation of diluted earnings per share for the year does not assume the exercise of the Company's outstanding share options as the exercise price of these options is higher than the average market price of shares for the year. In previous year, there were no dilutive potential shares.

12. MATERIAL RELATED PARTY TRANSACTIONS

Name of related company	Nature of transaction	2002 $'000	2001 $'000
Fuel City District Electricity Fuel Supply Company	Purchase of fuel *(Note)*	**421,641**	458,995
Foshan City District Electric Power Construction Corporation and its associate	Interest on loans	**33,540**	46,049
Hensil Investments Group Limited	Interest on promissory note	**97**	1,026

Note: The value is exclusive of value added tax.

During the year, 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 31 December 2002, amount due to Fuel Company was $75.29 million (2001: $77 million). The 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. The Fuel Company supplies fuel to the Group at prices which are based on the Fuel Company's weighted average purchase costs of fuel (before operating expenses and depreciation) plus reasonable mark-up margins.

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 counter parties. As at 31 December 2002, the outstanding loans, including an overdue amount of $24.66 million (2001: $47.61 million), amounted to approximately $448.21 million (2001: $560.11 million), details of which are disclosed in note 23. Apart from the outstanding loans, as at 31 December 2002, there was overdue interest payable to these parties amounting to $7.9 million (2001: $20.94 million), which is interest-free.

According to the loan agreements, loans overdue less than six months, over six months but within one year and over one year are subject to interest penalties at rates of 0.42%, 0.6% and 1.2% per month, respectively. The overdue interest payable is also subject to an interest penalty at a rate of 0.03% per day. No provision for these interest penalties has been made for the year ended 31 December 2002 as the lenders have waived the interest penalties on all overdue loans and interest payable as in previous years.

The outstanding amount of the promissory note at 31 December 2001 of $6.72 million due to Hensil Investments Group Limited ("Hensil Investments") was fully repaid during the year. Details of the promissory note are disclosed in note 24. Hensil Investments is a controlling shareholder of the Company.

Notes on the Accounts

(Expressed in Hong Kong dollars)

13. FIXED ASSETS

	The Group						The Company
	Land use rights	Buildings	Plant machinery & equipment	Motor vehicles	Others	Total	Others
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost:							
At 1 January 2002	55,972	142,599	1,700,288	8,372	10,182	1,917,413	2,880
Additions	–	–	2,507	835	1,876	5,218	–
At 31 December 2002	55,972	142,599	1,702,795	9,207	12,058	1,922,631	2,880
Accumulated depreciation and amortization:							
At 1 January 2002	13,493	33,395	485,681	8,070	7,235	547,874	2,880
Charge for the year	1,999	5,283	80,456	266	1,522	89,526	–
At 31 December 2002	15,492	38,678	566,137	8,336	8,757	637,400	2,880
Net book value:							
At 31 December 2002	40,480	103,921	1,136,658	871	3,301	1,285,231	–
At 31 December 2001	42,479	109,204	1,214,607	302	2,947	1,369,539	–

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.

14. GOODWILL

The Group	*$'000*
Cost:	
At 1 January & 31 December 2002	790,533
Accumulated amortization:	
At 1 January 2002	117,350
Amortization for the year	31,622
At 31 December 2002	148,972
Carrying amount:	
At 31 December 2002	641,561
At 31 December 2001	673,183

Goodwill is amortized over 25 years, i.e. the remaining joint venture period of Shakou JV as at the date of acquisition, on a straight-line basis.

Notes on the Accounts

(Expressed in Hong Kong dollars)

15. INVESTMENTS IN SUBSIDIARIES

(a) The Company

	2002	2001
	$'000	*$'000*
Unlisted shares, at cost	**1,338,500**	1,338,500

(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 Directly	Indirectly	Principal activities
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 established 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.

16. DEFERRED TAXATION

(a) Movement in deferred taxation is as follows:

	2002	2001
	$'000	*$'000*
At 1 January	**–**	–
Transfer from profit and loss account *(Note 8(a))*	**4,492**	–
At 31 December	**4,492**	–

(b) Deferred taxation of the Group represents depreciation in excess of related depreciation allowance.

Notes on the Accounts

(Expressed in Hong Kong dollars)

17. CONSUMABLES

The Group

	2002	2001
	$'000	*$'000*
Fuel oil	**1,546**	1,655
Components and parts	**8,947**	7,980
Others	**1,165**	1,347
	11,658	10,982

18. TRADE AND OTHER RECEIVABALES

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

	The Group		**The Company**	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Current	**48,495**	125,789	**–**	–
1 to 3 months overdue	**73,294**	35,712	**–**	–
	121,789	161,501	**–**	–

Debts are due within 30 days from the date of billing. All of the trade and other receivables are expected to be recovered within one year.

19. CASH AND CASH EQUIVALENTS

	The Group		**The Company**	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Deposits with banks	**27,006**	52,310	**27,006**	52,310
Cash at bank and in hand	**140,931**	88,466	**960**	316
	167,937	140,776	**27,966**	52,626

Notes on the Accounts

(Expressed in Hong Kong dollars)

20. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Creditors and accrued charges	**32,573**	65,385	**1,731**	1,043
Amounts due to related companies	**83,184**	97,944	**–**	–
	115,757	163,329	**1,731**	1,043

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

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Due within 1 month or on demand	**75,285**	120,583	**–**	–

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

21. PROVISION FOR STAFF WELFARE

The Group	$'000
At 1 January 2002	9,442
Provision made	6,647
Amount utilized	(5,284)
At 31 December 2002	10,805

In accordance with the articles of association of the PRC subsidiary, the PRC subsidiary is required to transfer part of its profit after taxation to the staff welfare fund. The transfer amount is determined by the subsidiary's board of directors in accordance with the joint venture agreement and the transfer is made before profit distribution to the joint venture partners.

22. BANK LOANS — SECURED

At 31 December 2002, the Group's bank loans were repayable as follows:

	2002	2001
	$'000	$'000
Within one year or on demand	**84,222**	–

The banking facilities of the PRC subsidiary are secured by charges over its power generating facilities with an aggregate carrying value of $1,133,711,000 (2001: Nil) at 31 December 2002. Such banking facilities amount to $108,553,000 (2001: Nil), out of which $84,222,000 (2001: Nil) were drawn down at 31 December 2002. The bank loans are repayable in full six or seven months after the drawn down dates and bear interest at annual rate of 4.536%.

Notes on the Accounts

(Expressed in Hong Kong dollars)

23. LOANS — UNSECURED

The Group

	2002 **$'000**	2001 $'000
Loans are repayable within the periods as follows:		
Within one year	**113,604**	136,554
Between one to two years	**88,948**	88,948
Between two to five years	**239,043**	266,845
After five years	**6,613**	67,760
	334,604	423,553
	448,208	560,107

The loans are denominated in Renminbi bearing interest at a fixed interest rate of 5.76% (2001: 8.08%) per annum and repayable half-yearly by 20 equal instalments. These loans are due to Power Construction Corporation and its associate.

24. PROMISSORY NOTE — UNSECURED

	The Group		**The Company**	
	2002 **$'000**	2001 $'000	**2002** **$'000**	2001 $'000
The note was repayable as follows:				
Within one year	**–**	6,720	**–**	6,720

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

25. SHARE CAPITAL

	2002		2001	
	Number of shares '000	**Nominal value $'000**	Number of shares '000	Nominal value $'000
Authorized:				
Shares of $0.10 each	**1,100,000**	**110,000**	1,100,000	110,000
Issued and fully paid:				
Balance brought forward & carried forward	**829,018**	**82,902**	829,018	82,902

Notes on the Accounts

(Expressed in Hong Kong dollars)

26. 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*	Retained profits *$'000*	Total *$'000*
Balance at 1 January 2001	1,041,444	297	14,355	14,355	289,566	1,360,017
Profit for the year	–	–	–	–	12,875	12,875
Transfer to PRC subsidiary's reserves	–	–	2,879	2,879	(5,758)	–
Balance at 31 December 2001	1,041,444	297	17,234	17,234	296,683	1,372,892
Balance at 1 January 2002	1,041,444	297	17,234	17,234	296,683	1,372,892
Profit for the year	–	–	–	–	49,583	49,583
Dividends *(Note 10)*	–	–	–	–	(12,435)	(12,435)
Transfer to PRC subsidiary's reserves	–	–	5,317	5,317	(10,634)	–
Balance at 31 December 2002	1,041,444	297	22,551	22,551	323,197	1,410,040

Notes: (a) The application of the share premium account and capital redemption reserve is governed by Sections 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 articles of association 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

(Expressed in Hong Kong dollars)

26. RESERVES *(Continued)*

The Company

	Share premium $'000	Capital redemption reserve $'000	Retained profits $'000	Total $'000
Balance at 1 January 2001	1,041,444	297	226,434	1,268,175
Profit for the year	—	—	16,727	16,727
Balance at 31 December 2002	1,041,444	297	243,161	1,284,902
Balance at 1 January 2002	1,041,444	297	243,161	1,284,902
Loss for the year	—	—	(5,436)	(5,436)
Dividends *(Note 10)*	—	—	(12,435)	(12,435)
Balance at 31 December 2002	1,041,444	297	225,290	1,267,031

The distributable reserves of the Company at 31 December 2002 amounted to $225,290,000 (2001: $243,161,000).

27. EMPLOYEES RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Apart from the mandatory contributions, the employer would make monthly voluntary contributions, which is the excess of 5%, or 10% for employees working over ten years, of the basic salary over the mandatory contribution. Mandatory contributions to the scheme vest immediately. Where there are employees who leave the Group prior to vesting fully in the voluntary contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. At 31 December 2002, there was no forfeited contribution, which arose upon employees leaving the Group, available to reduce the contribution payable in the future years.

The employees in the Group's PRC subsidiary are members of the state-managed retirement scheme. The PRC subsidiary is required to contribute a specified percentage of its payroll to the scheme. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

(Expressed in Hong Kong dollars)

28. EQUITY COMPENSATION BENEFITS

The Company has a share option scheme which was adopted on 22 May 2002 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on The Stock Exchange of Hong Kong Limited on the date of grant and the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vest after six months from the date of grant and are then exercisable within a period of five years. Each option gives the holder the right to subscribe for one share.

(a) Movement in share options

	2002 ***'000***	2001 *'000*
At 1 January	**–**	–
Issued	**18,484**	–
At 31 December	**18,484**	–
Options vested at 31 December	**–**	–

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	**Exercise period**	**Exercise price**	**2002** ***'000***	2001 *'000*
25 July 2002	25 January 2003 to 24 January 2008	$0.35	**828**	–
29 July 2002	29 January 2003 to 28 January 2008	$0.35	**1,128**	–
30 July 2002	30 January 2003 to 29 January 2008	$0.35	**15,700**	–
19 August 2002	19 February 2003 to 18 February 2008	$0.35	**828**	–
			18,484	–

No share options were exercised or cancelled during the year (2001: Nil).

Notes on the Accounts

(Expressed in Hong Kong dollars)

29. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2002 not provided for in the accounts were as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Contracted for	**5,880**	108,012	**–**	–

On 30 September 2001, Shakou JV entered into an overhaul agreement with a third party for a large-scale inspection and overhaul of the two gas turbines of Shakou Power Plant in the beginning of 2003. The total contract price is US$19.47 million (equivalent to $150.80 million). A deposit of US$5.84 million (equivalent to $45.30 million) has been paid in 2001 and the remaining balance was fully paid in 2002.

(b) At 31 December 2002, the total future lease payments of the Group and the Company under non-cancellable operating leases in respect of office premises are payable as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Within 1 year	**378**	572	**90**	572

The Group leases office premises under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

30. 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, 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 $43 million, excluding penalties.

31. COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP15 (revised) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.