



WING SHAN INTERNATIONAL LIMITED

榮山國際有限公司

(Incorporated in Hong Kong with limited liability)

INTERIM REPORT 2003

COMPANY INFORMATION**Board of Directors***Executive Directors:*

HE Haochang (*Chairman & Managing Director*)
CHAN Che Kan, Edward (*Deputy Managing Director*)
SITU Min (*Chief Financial Officer*)
LI Feng (*Appointed on 26 February 2003*)
TANG Jian (*Resigned on 26 February 2003*)

Non-executive Director:

LAM Siu Hung (*Resigned on 26 February 2003*)

Independent Non-executive Directors:

CHAN Ting Chuen, David
NG Pui Cheung, Joseph

Company Secretary

CHEUNG Wing Yui (*Resigned on 1 June 2003*)
HUEN Po Wah (*Appointed on 1 June 2003*)

Audit Committee

CHAN Ting Chuen, David (*Chairman*)
NG Pui Cheung, Joseph

Registered Office

Rooms 2801-2805, China Insurance Group Building
141 Des Voeux Road Central, Hong Kong

Auditors

KPMG
Certified Public Accountants
Hong Kong

Registrars and Transfer Office

Computershare Hong Kong Investor Services Limited
Room 1901-5, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited,
Hong Kong Branch
The Hongkong & Shanghai Banking Corporation Limited,
Hong Kong Main Office

Website

<http://www.wingshan.com.hk>
<http://www.irasia.com/listco/hk/wingshan>

Dear Shareholders,

The Board of Directors (the "Board") of Wing Shan International Limited (the "Company") (together with its subsidiaries known as the "Group") would like to report the unaudited consolidated interim results of the Group for the six months ended 30 June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Review

The Group's turnover decreased by 6.2% to HK\$281.3 million (2002: HK\$300.0 million), mainly because of: (1) the decrease of electricity sales volume; (2) the decrease of per unit sales tariff; and (3) the absence of additional fuel cost surcharge for the period. The Group's cost of sales increased by 11.1% to HK\$277.0 million (2002: HK\$249.4 million), primarily reflecting the increased fuel oil cost. As a result, the Group's gross profit margin plummeted from the previous 16.9% to 1.5%. Although administrative expenses grew by 10.6% to HK\$11.5 million (2002: HK\$10.4 million), finance costs decreased by 31.9% to HK\$13.9 million (2002: HK\$20.4 million). The Group's loss attributable to shareholders widened to HK\$29.5 million (2002: HK\$4.2 million), equivalent to a loss per share for the period of 3.6 Hong Kong cents (2002: 0.5 Hong Kong cents).

Operation Review

Electric Power Market

Electricity consumption of Foshan Municipality experienced satisfactory growth during the period primarily reflecting the robust economic growth of Guangdong Province and Foshan Municipality. For several times during the period, the maximum electricity demand load of Guangdong Province has recorded new highs. While the severe hot weather has also stimulated the province's overall electricity consumption, the relatively dry weather has on the other hand reduced electricity supply from hydro power stations. Despite increased supply from the 西電東送 (West-to-east transmission) Project, electricity short-supply situations persisted. It was also reported that some industrial enterprises in the province were requested by the relevant provincial authorities to shift production activities from the high load periods to low load periods while end-user tariffs were raised during high load periods.

Electricity Sales

Electricity sales volume of 佛山市沙口發電廠有限公司 (Foshan Shakou Power Plant Co. Ltd.) ("Shakou JV") for the period decreased by 2.5% to approximately 595.2 million kilowatt-hours ("kwh") (2002: 610.7 million kwh), mainly due to the major overhaul of Shakou JV's power generating facilities undertaken in the first quarter. The unfortunate Severe Acute Respiratory Syndrome (the "SARS") incident during the period has no significant impact on the Group's business and operations. Throughout the SARS period, the Group adopted contingency measures in its headquarters and power plant facilities to ensure minimal impact on the Group's operations. After the major overhaul, Shakou JV's power generating facilities have been operated at their optimal condition during the peak demand periods. Shakou JV's average plant utilization rate was approximately 45.7% (2002: 46.9%). Pursuant to a power purchase agreement entered into between Shakou JV and 廣東省廣電集團有限公司佛山供電分公司 (Guang Dong Guang-dian Power Grid Group Co. Ltd. Foshan Branch) ("Guang-dian Foshan") dated 4 December 2002, almost all of the electricity produced were sold to Guang-dian Foshan at tariff of Renminbi 0.5051 (2002: Renminbi 0.51384) per kwh (exclusive of value-added tax).

Fuel Oil Prices

Heavy oil cost accounted for approximately 76.5% (2002: 76.4%) of Shakou JV's total cost of sales. During the period, mainly due to the warfare in Iraq, fuel oil prices surged and hovered at relatively higher levels. The weighted average cost of heavy oil consumed by Shakou JV for the period increased by 18.5% to approximately Renminbi 1,810 (2002: Renminbi 1,528) per tonne (exclusive of value-added tax). Shakou JV suffered operating loss.

Financial Review

Liquidity and Financial Resources

The Group funded its operations principally by its internal cash flow generated from its operating activities. However, net cash inflow from operating activities decreased by 53.2% to HK\$23.6 million (2002: HK\$50.4 million), reflecting the operating loss during the period. Though suppliers' credit periods were lengthened, total net cash flow after financing activities experienced a deficit of HK\$54.1 million (2002: HK\$22.2 million). Compared with its last balance sheet dated 31 December 2002, the Group's net working capital deficit increased to HK\$100.4 million (31 December 2002: HK\$49.0 million). The Group's total current assets were HK\$303.8 million (31 December 2002: HK\$307.8 million), primarily consisted of bank and cash balance of HK\$113.8 million (31 December 2002: HK\$167.9 million) and trade and other receivables of HK\$172.5 million (31 December 2002: HK\$128.2 million). Total current liabilities were HK\$404.1 million (31 December 2002: HK\$356.7 million), primarily consisted of current portions of long-term Renminbi loans of HK\$111.9 million (31 December 2002: HK\$113.6 million), trade and other payables of an aggregate amount of HK\$193.5 million (31 December 2002: HK\$115.8 million) and short-term bank loans of HK\$84.2 million (31 December 2002: HK\$84.2 million). Current ratio weakened from 0.86 to 0.75. Cash expenditure on tangible fixed assets for the period was HK\$3.2 million (2002: HK\$9.1 million).

Commitment for Significant Capital Expenditure

As at 30 June 2003, the Group has no significant outstanding capital expenditure commitment (31 December 2002: HK\$5.9 million).

Charge on Group Assets

As at 30 June 2003, the Group's power generating facilities of an aggregate amount of HK\$1.3 billion (31 December 2002: HK\$1.1 billion) were charged to three banks in the PRC to secure the respective short-term banking facilities for Shakou JV's working capital requirement. Apart from such, no other part of the Group's assets had been charged to banks, financial institutions or other enterprises.

Capital Structure and Gearing Ratio

The Group continued to finance its non-current assets principally by a mix of long-term loans and shareholders' equity. As at 30 June 2003, total long-term loans amounted to HK\$402.1 million (31 December 2002: HK\$448.2 million), being the aggregate outstanding balance of unsecured Renminbi loans (including its current portions) due to Shakou JV's PRC joint-venture partner and its associate. These Renminbi loans were borrowed in 1997 and 1998 and were repayable by instalments semi-annually in 10 years. In order to improve its cash-flow position vis-a-vis the increased working capital requirements due to the recent high fuel oil prices, Shakou JV negotiated with its counterparties and obtained their agreements to allow flexible repayment schedules during the period. At the same time, the applicable interest rates charged on the Renminbi loans for the period were reduced to 5.76% (2002: 8.08%) per annum. The total amount of repayment made in respect of the Group's long-term loans during the period was approximately HK\$46.1 million (2002: HK\$37.2 million). As at period end, the Group's net assets decreased slightly by 2.7% to HK\$1.45 billion (31 December 2002: HK\$1.49 billion), mainly due to the loss attributable to shareholders for the period and the distribution of final dividends for the year 2002 to the Company's shareholders on 27 June 2003. The net book value of goodwill arising from acquisition of subsidiaries was HK\$625.8 million (31 December 2002: HK\$641.6 million). Gearing ratio, being total outstanding long-term debts as a percentage of shareholders' fund, improved from 30.0% to 27.8%. Net assets per share decreased from HK\$1.80 to HK\$1.75 while net tangible assets per share fell from HK\$1.03 to HK\$0.99.

Changes of Directors

On 26 February 2003, Mr. TANG Jian resigned as an executive director of the Company and Mr. LAM Siu Hung resigned as a non-executive director of the Company for personal reasons. On the same day, Mr. LI Feng was appointed as an executive director of the Company, mainly responsible for the operation of Shakou JV's power plant facilities.

Change of Company Secretary

On 1 June 2003, Mr. CHEUNG Wing Yui, Edward resigned as the company secretary of the Company and in his place Mr. HUEN Po Wah was appointed on the same day. Mr. HUEN is an Associate of The Institute of Chartered Secretaries and Administrators and also an Associate of The Hong Kong Institute of Company Secretaries. The Board would like to thank Mr. CHEUNG for his contribution to the Company in the past and welcome Mr. HUEN for joining the Company.

Share Option Scheme

The Company adopted a share option scheme for any eligible employee or director of any member of the Group. The scheme was approved by the Company's shareholders at an extraordinary general meeting on 22 May 2002, details of which had been disclosed in the Company's circular dated 29 April 2002 and most recent annual report. Further disclosures in respect of the share options granted, exercised, lapsed and cancelled during the period are listed under the section headed Disclosure of Interests in this report.

Other Information

Save as disclosed in this report, the Group's current information in respect of number of employees, remuneration policies, exchange risk, committed banking facilities and contingent liabilities has not changed significantly from the information disclosed in the Company's most recent published annual report.

Outlook

It is expected that the electricity short-supply situation of Guangdong Province and Foshan Municipality will continue in the second half of the year which is cyclically the high electricity demand season of the year. Sales tariffs of most electricity producers in the province are expected to sustain at their present levels despite the general downward pressure exerted on electric power producer sales tariff under the Guangdong Provincial Government's electric power industry reform. Shakou JV will endeavor to turnaround its financial performance by improving production efficiency and enhancing cost effectiveness. After completion of the major overhaul of its power generating facilities, Shakou JV is expected to improve its production efficiency and is in a better position to benefit from the electricity demand growth of Foshan Municipality. Despite its short-term fluctuation, future trend of fuel oil price is expected to soften over the longer term. Shakou JV will continue to monitor closely the fuel oil prices movements and implement strategic purchasing measures in order to minimize the possible adverse effect of fuel oil price fluctuations on the Group's business performance and financial position.

OTHER DISCLOSURES

Interim Dividend

The Board does not recommend an interim dividend for the six months ended 30 June 2003 (2002: Nil).

Disclosure of Interests

Directors' and Chief Executives' Interests

As at 30 June 2003, the interests or short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Ordinary Shares

Name of Directors	Number of Ordinary Shares		Underlying Shares pursuant to Share Options	Total Interests	Percentage of Total Interests to Issued Share Capital (%)
	Personal Interests (held as beneficial owner)	Corporate Interests (interest of controlled corporation)			
HE Haochang	—	6,117,079 (Note 2)	4,200,000 (Note 3)	10,317,029	1.24
CHAN Che Kan, Edward	205,034	—	3,900,000 (Note 3)	4,105,034	0.50
SITU Min	—	—	3,800,000 (Note 3)	3,800,000	0.46
LI Feng	—	—	1,500,000 (Note 3)	1,500,000	0.18
CHAN Ting Chuen, David	—	—	828,000 (Note 3)	828,000	0.10
NG Pui Cheung, Joseph	—	—	828,000 (Note 3)	828,000	0.10

Notes:

1. All interests in the shares and underlying shares of equity derivatives of the Company are long positions.
2. These shares were held by Main Fortune International Limited which is 50% owned by Mr. HE Haochang.
3. These represent interests of options granted to the directors under the Share Option Scheme to acquire for shares of the Company, further details of which are set out hereinafter.

Options to subscribe for Ordinary Shares granted under the Company's Share Option Scheme

Name of Directors/ Chief Executives	Date Granted	No. of Options Granted	Period during which Rights Exercisable	Options Outstanding as at 1 January 2003	Options Exercised during the period	Options Lapsed during the period	Price Per Share Payable on Exercise of Options (HK\$)	Options Outstanding as at 30 June 2003
HE Haochang	30/7/02	4,200,000	30/1/03-29/1/08	4,200,000	—	—	0.35	4,200,000
CHAN Che Kan, Edward	30/7/02	3,900,000	30/1/03-29/1/08	3,900,000	—	—	0.35	3,900,000
SITU Min	30/7/02	3,800,000	30/1/03-29/1/08	3,800,000	—	—	0.35	3,800,000
[^] TANG Jian	30/7/02	3,800,000	30/1/03-29/1/08	3,800,000	—	3,800,000	0.35	—
[^] LAM Siu Hung*	19/8/02	828,000	19/2/03-18/2/08	828,000	—	828,000	0.35	—
LI Feng	22/5/03	1,500,000	22/11/03-21/11/08	—	—	—	0.415	1,500,000
CHAN Ting Chuen, David**	29/7/02	828,000	29/1/03-28/1/08	828,000	—	—	0.35	828,000
NG Pui Cheung, Joseph**	25/7/02	828,000	25/1/03-24/1/08	828,000	—	—	0.35	828,000
Other eligible employee	29/7/02	300,000	29/1/03-28/1/08	300,000	—	—	0.35	300,000

[^] Resigned on 26 February 2003

* Non-executive director

** Independent non-executive director

Notes:

1. None of the share options was exercised during the period.
2. The 3,800,000 and 828,000 share options granted to Mr. TANG Jian and Mr. LAM Siu Hung respectively were lapsed and cancelled on 26 May 2003 due to their resignations as directors which have taken effect on 26 February 2003.
3. A total of 1,500,000 share options were granted to Mr. LI Feng on 22 May 2003 at subscription price of HK\$0.415 per share. The closing price per share at the date preceding the date of options granted to Mr. LI Feng during the period (i.e. the date the offer of the grant of options were accepted) on 21 May 2003 was HK\$0.395.
4. The vesting periods of the options are from the date of the options granted until the commencement of the exercise period.
5. The above options granted are not recognized in the accounts until they are exercised. The directors consider it inappropriate to value the options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the options based on various speculative assumptions would be meaningless and could be misleading to shareholders. The directors therefore consider the disclosure of only the relevant market price and exercise price which are readily ascertainable, will be appropriate.

Save as disclosed above, none of the directors or chief executives of the Company had any other interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO). During the period, no directors or chief executives nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of such rights by any of them, as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Substantial Shareholders' Interests

As at 30 June 2003, as recorded in the register of interests in shares and short positions kept by the Company under section 336 of the SFO, the Company had been notified of the following interests in the shares of the Company held by the following parties:

Name	Number of Ordinary Shares				Percentage of Issued Share Capital (%)
	Personal Interest	Corporate Interest	Family Interest	Other Interest	
Hensil Investments Group Limited	—	315,000,000 (Note 1)	—	—	38.00
Foshan Development Company Limited	—	315,000,000 (Note 1)	—	—	38.00
YIP Siu Chun	290,196,037 (Note 2)	—	—	—	35.00
Oakwood Enterprise Limited	—	—	—	290,196,037 (Note 2)	35.00
KWAN Tik Hoi	—	—	290,196,037 (Note 2)	—	35.00

Notes:

1. The 315,000,000 shares are held by Hensil Investments Group Limited as beneficial owner. By virtue of its interests in Hensil Investments Group Limited, Foshan Development Company Limited is deemed to be interested in the 315,000,000 shares held by Hensil Investments Group Limited.
2. The 290,196,037 shares are held by Madam YIP Siu Chun as beneficial owner. Oakwood Enterprise Limited has given notification in respect of its interest in 290,196,037 shares held by Madam YIP Siu Chun. By virtue of his relationship as the spouse of Madam YIP Siu Chun, Mr. KWAN Tik Hoi is deemed to be interested in the 290,196,037 shares held by Madam YIP Siu Chun.

Save as disclosed herein, there was no other party who was directly or indirectly interested in the shares or short positions of the Company as recorded in the register required to be kept under section 336 of the SFO.

Review of Interim Financial Report

The unaudited interim financial report have been reviewed by the Company's auditors, KPMG, and a review report has been received by the Board, as listed out on page 16.

Audit Committee

The audit committee has reviewed and discussed with the Company's management the interim report, internal control and financial reporting matters. The audit committee has also discussed with the Company's external auditors the unaudited consolidated interim financial report for the six months ended 30 June 2003.

Code of Best Practice

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

Purchase, Sales or Redemption of the Company's Listed Securities

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
HE Haochang
 Chairman

Hong Kong, 18 September 2003

Website: <http://www.wingshan.com.hk>
<http://www.irasia.com/listco/hk/wingshan>

CONSOLIDATED PROFIT AND LOSS ACCOUNT*For the Six Months Ended 30 June 2003 - Unaudited*

	Note	Six months ended 30 June	
		2003 HK\$'000	2002 HK\$'000
Turnover	3	281,329	300,011
Cost of sales		(276,993)	(249,356)
Gross profit		4,336	50,655
Interest income		1,127	734
Other net income		125	712
Administrative expenses		(11,466)	(10,361)
Goodwill amortization		(15,811)	(15,811)
(Loss)/Profit from operations		(21,689)	25,929
Finance costs	5	(13,851)	(20,426)
(Loss)/Profit from Ordinary Activities Before Taxation	5	(35,540)	5,503
Taxation	6	3,394	(6,110)
Loss from Ordinary Activities After Taxation		(32,146)	(607)
Minority interests		2,680	(3,546)
Loss Attributable to Shareholders		(29,466)	(4,153)
Dividends Attributable to the Previous Financial Year, Approved and Paid During the Period	7		
Final dividend in respect of the previous financial year, approved and paid during the period, of 1.8 (2002: 1.5) cents per share		14,922	12,435
Loss Per Share	8		
— Basic		3.6 cents	0.5 cents
— Diluted		N/A	N/A

The notes on pages 11 to 15 form part of this interim report.

CONSOLIDATED BALANCE SHEET

At 30 June 2003 - Unaudited

		30 June 2003	31 December 2002
	<i>Note</i>	HK\$'000	HK\$'000
Non-Current Assets			
Fixed assets		1,406,228	1,285,231
Components for planned maintenance		—	163,329
Goodwill		625,750	641,561
Deferred taxation	10	7,928	4,492
		<u>2,039,906</u>	<u>2,094,613</u>
Current Assets			
Consumables		17,386	11,658
Trade and other receivables	11	172,535	128,195
Cash and cash equivalents		113,832	167,937
		<u>303,753</u>	<u>307,790</u>
Current Liabilities			
Trade and other payables	12	193,472	115,757
Provision for staff welfare		5,613	10,805
Bank loans - Secured	13	84,222	84,222
Current portion of interest-bearing loans		111,943	113,604
Dividend payable		5,751	—
Taxation		3,131	32,354
		<u>404,132</u>	<u>356,742</u>
Net Current Liabilities		<u>(100,379)</u>	<u>(48,952)</u>
Total Assets Less Current Liabilities		1,939,527	2,045,661
Non-Current Liabilities			
Interest-bearing loans		290,130	334,604
Minority Interests		200,843	218,115
Net Assets		<u>1,448,554</u>	<u>1,492,942</u>
Share Capital and Reserves			
Share capital		82,902	82,902
Reserves		1,365,652	1,410,040
		<u>1,448,554</u>	<u>1,492,942</u>

The notes on pages 11 to 15 form part of this interim report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the Six Months Ended 30 June 2003 - Unaudited*

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Net Cash from Operating Activities	23,579	50,398
Net Cash Used in Investing Activities	(2,034)	(8,353)
Net Cash Used in Financing Activities	(75,650)	(64,211)
Decrease in Cash and Cash Equivalents	(54,105)	(22,166)
Cash and Cash Equivalents at the Beginning of the Period	167,937	140,776
Cash and Cash Equivalents at the End of the Period	113,832	118,610
Analysis of Balances of Cash and Cash Equivalents		
Deposits with banks	9,000	30,355
Cash at bank and in hand	104,832	88,255
	113,832	118,610

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the Six Months Ended 30 June 2003 - Unaudited*

	Share capital	Share premium	Capital redemption reserve	Reserve fund	Enterprise development fund	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	82,902	1,041,444	297	17,234	17,234	296,683	1,455,794
Loss for the period	—	—	—	—	—	(4,153)	(4,153)
Dividends (<i>Note 7</i>)	—	—	—	—	—	(12,435)	(12,435)
At 30 June 2002	<u>82,902</u>	<u>1,041,444</u>	<u>297</u>	<u>17,234</u>	<u>17,234</u>	<u>280,095</u>	<u>1,439,206</u>
At 1 January 2003	82,902	1,041,444	297	22,551	22,551	323,197	1,492,942
Loss for the period	—	—	—	—	—	(29,466)	(29,466)
Dividends (<i>Note 7</i>)	—	—	—	—	—	(14,922)	(14,922)
At 30 June 2003	<u>82,902</u>	<u>1,041,444</u>	<u>297</u>	<u>22,551</u>	<u>22,551</u>	<u>278,809</u>	<u>1,448,554</u>

The notes on pages 11 to 15 form part of this interim report.

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"). KPMG's independent review report to the Board of Directors is included on page 16.

The interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 December 2002 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 2002 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 15 April 2003.

The same accounting policies adopted in the 2002 annual accounts have been applied to the interim financial report, with the exception of change in accounting policy as explained in note 2 below.

2. Change in Accounting Policy

In prior years, deferred tax liabilities were 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 were expected with reasonably probability to crystallize in the foreseeable future. Deferred tax assets were not recognized unless their realization was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with SSAP12 (revised) issued by the HKSA, the Group adopted a new policy for deferred tax as set out below. The effect of this change is not material to the interim financial report and therefore, the comparative figures have not been restated.

Income tax

- (i) Income tax for the year comprises current and deferred tax. Income tax is recognized in the profit and loss account except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

3. Turnover

The principal activity of the Group is the generation and sale of electricity. Turnover represents the invoiced value, net of value added tax, of electricity supplied in Foshan City, Guangdong Province, the People's Republic of China ("PRC"). During the period ended 30 June 2003, no additional fuel cost surcharges (2002: HK\$6.4 million), which represented an adjustment for tariff of electricity supplied, were received and included in turnover.

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. (Loss)/Profit from Ordinary Activities Before Taxation

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

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
(a) Finance costs		
Interest on promissory note repayable within five years	—	97
Interest on bank advances and other borrowings	<u>13,851</u>	<u>20,329</u>
	<u>13,851</u>	<u>20,426</u>
(b) Other items		
Depreciation and amortization (other than for goodwill)	<u>43,066</u>	<u>44,718</u>

6. Taxation

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Current Tax — PRC		
Provision for PRC income tax for the period	—	2,770
Under-provision in respect of prior year	<u>42</u>	<u>1,136</u>
	<u>42</u>	<u>3,906</u>
Deferred Tax		
Origination and reversal of temporary differences (<i>Note 10(a)</i>)	<u>(3,436)</u>	<u>2,204</u>
Total income tax (credit)/expense	<u>(3,394)</u>	<u>6,110</u>

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 provision for income tax in 2002 represented provision for the PRC income tax levied at 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 period ended 30 June 2002 and no provision for current income tax has been made during the period as Shakou JV sustained losses for taxation purposes.

7. Dividends

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the period, of 1.8 (2002: 1.5) cents per share	<u>14,922</u>	<u>12,435</u>

8. Loss Per Share

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$29,466,000 (2002: HK\$4,153,000) and 829,018,244 (2002: 829,018,244) shares in issue during the period.

The diluted loss per share for the period is the same as the basic loss per share as all potential ordinary shares are anti-dilutive. In the previous period, there were no dilutive potential shares.

9. Material Related Party Transactions

Name of related company	Nature of transaction	Six months ended 30 June	
		2003	2002
		HK\$'000	HK\$'000
Maxfortune Development Limited	Rental of office premises and other charges	192	—
Foshan City District Electricity Fuel Supply Company	Purchase of fuel (<i>Note</i>)	214,681	191,101
Foshan City District Electric Power Construction Corporation and its associate	Interest on loans	11,930	20,329
Hensil Investments Group Limited	Interest on promissory note	<u>—</u>	<u>97</u>

Note: The value is exclusive of value added tax.

Rentals were paid at market rates. Maxfortune Development Limited is a subsidiary of Foshan Development Company Limited, which is a beneficial controlling shareholder of the Company.

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 2003, amount due to Fuel Company was HK\$166.98 million (31 December 2002: HK\$75.29 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.

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 2003, the outstanding loans, including an overdue amount of HK\$22.99 million (31 December 2002: HK\$24.66 million), amounted to approximately HK\$402.07 million (31 December 2002: HK\$448.21 million). The loans are interest-bearing at a fixed rate of 5.76% (2002: 8.08%) per annum at 30 June 2003. Apart from the outstanding loans, as at 30 June 2003, there was overdue interest payable to these parties amounting to HK\$16.35 million (31 December 2002: HK\$7.9 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 period ended 30 June 2003 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 HK\$6.72 million due to Hensil Investments Group Limited ("Hensil Investments") was fully repaid during the six months ended 30 June 2002. Hensil Investments is a controlling shareholder of the Company.

10. Deferred Taxation

- (a) The movements of deferred tax during the period are as follows:

	<i>HK\$'000</i>
At 1 January 2002	—
Credited to consolidated profit and loss account	<u>4,492</u>
At 31 December 2002	<u><u>4,492</u></u>
At 1 January 2003	4,492
Credited to consolidated profit and loss account	<u>3,436</u>
At 30 June 2003	<u><u>7,928</u></u>

- (b) Deferred tax assets have not been recognized in respect of tax losses of HK\$2,999,000 (31 December 2002: HK\$2,740,000) of a subsidiary in Hong Kong as it is not probable that future taxable profits will be available against which the asset can be utilized.

11. Trade and Other Receivables

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

	30 June 2003 <i>HK\$'000</i>	31 December 2002 <i>HK\$'000</i>
Current	83,137	48,495
1 to 3 months overdue	<u>87,074</u>	<u>73,294</u>
	<u>170,211</u>	<u>121,789</u>

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.

12. Trade and Other Payables

	30 June 2003 <i>HK\$'000</i>	31 December 2002 <i>HK\$'000</i>
Creditors and accrued charges	10,147	32,573
Amounts due to related companies	<u>183,325</u>	<u>83,184</u>
	<u>193,472</u>	<u>115,757</u>

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

	30 June 2003 <i>HK\$'000</i>	31 December 2002 <i>HK\$'000</i>
Due within 1 month or on demand	<u>166,977</u>	<u>75,285</u>

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

13. Bank Loans - Secured

At 30 June 2003, the Group's bank loans were repayable as follows:

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Within one year or on demand	<u>84,222</u>	<u>84,222</u>

At 30 June 2003, the banking facilities of Shakou JV are secured by charges over its power generating facilities with an aggregate carrying value of HK\$1,260,080,000 (31 December 2002: HK\$1,133,711,000). Such banking facilities amount to HK\$149,729,000 (31 December 2002: HK\$108,553,000), out of which HK\$84,222,000 (31 December 2002: HK\$84,222,000) were drawn down as of 30 June 2003. The bank loans are repayable in full in September 2003 or October 2003 and bear interest at annual rate of 4.536%.

14. Commitments

(a) Capital commitments outstanding at 30 June 2003 not provided for in the accounts were as follows:

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Contracted for	<u>—</u>	<u>5,880</u>

(b) At 30 June 2003, the total future lease payments of the Group under non-cancellable operating lease in respect of office premises are payable as follows:

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Within 1 year	<u>150</u>	<u>378</u>

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.

15. 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.

16. Approval of the Interim Financial Report

The interim financial report was approved by the Board of Directors on 18 September 2003.

Independent Review Report to the Board of Directors of Wing Shan International Limited

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 8 to 15.

Respective Responsibilities of Directors and Auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Directors' Responsibilities

Review Work Performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagement to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review Conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

KPMG

Certified Public Accountants

Hong Kong, 18 September 2003