



1. GENERAL

The Company is a public company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors regard the ultimate holding company as at 31 December 2003 to be China Resources National Corporation ("CRNC"), a company established in the People's Republic of China ("PRC").

The Company is an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entity are set out in notes 12, 13 and 14, respectively.

The Company had undertaken a group reorganisation for the purpose of the preparation of the Company's shares to be listed on the Stock Exchange (the "Group Reorganisation"). Details of the Group Reorganisation are set out in the section headed "Business - Reorganization" of the Company's prospectus dated 3 November 2003.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and have been prepared in accordance with accounting principles generally accepted in Hong Kong. The significant accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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 income statement from the effective dates of acquisition or disposal, respectively.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiary, associate, or jointly controlled entity at the date of acquisition.

Goodwill arising on the acquisition is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of an acquired subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on the acquisition is presented separately in the consolidated balance sheet as deduction from assets. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of an associate or jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet as a deduction from assets.



2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Interests in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

Joint venture

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the goodwill or less the negative goodwill, where appropriate in so far as it has not already been written off, amortised or released to income, where appropriate, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

Revenue recognition

Sales of electricity are recognised when electricity has been delivered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income is recognised when the Group's right to receive payments has been established.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and any identified impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress, over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives are as follows:

Leasehold land	Over the remaining term of the lease
Buildings	20 to 30 years
Power generating plant and equipment	15 to 18 years
Motor vehicles, furniture, fixtures, equipment and others	3 to 10 years

Construction in progress represents assets in the course of construction for production, rental or administrative purposes, or for purposes not yet determined. They are carried at cost, less any identified impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value. Cost includes all construction expenditure and other direct costs, including borrowing costs, attributable to such projects. Costs on completed construction works are transferred to other appropriate category of property, plant and equipment.

No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.



2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment

At each balance sheet date, the Group reviews the carrying amount of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories which consist of coal, fuel, spare parts and consumables are stated at the lower of cost and net realisable value. Cost is determined on the weighted average cost method. Net realisable value is determined as the estimated net selling price less all further costs of production and the related costs of marketing, selling and distribution.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. In principle, deferred taxation liabilities are recognised for all taxable temporary differences and deferred taxation assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred taxation is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred taxation is also dealt with in equity.

Deferred taxation assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.



2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that are those that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the costs of those assets.

All other borrowing costs are expensed in the year in which they are incurred.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Foreign currency translation

The Company maintains its books and records in Hong Kong dollars.

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefit contributions

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

3. SEGMENT INFORMATION

Business segments

The Group's principal activities are the development and operation of power stations as a single business segment.

Geographical segments

All of the Group's assets and liabilities are principally located in the PRC and operations for the year were substantially made in the PRC. Accordingly, no geographical segment information for the year is presented.

4. TURNOVER

Turnover represents the net amount received and receivable for the sales of electricity during the year.



5. PROFIT (LOSS) FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Directors' remuneration		
- Fees	137	—
- Other emoluments	1,474	1,007
Other staff costs	1,611	1,007
Pension costs, excluding directors	36,830	19,627
	3,687	186
Total staff costs	42,128	20,820
Less: Staff costs included in pre-operating expenses of subsidiaries	(5,024)	(3,323)
	37,104	17,497
Auditors' remuneration	2,143	445
Depreciation	39,382	516
Amortisation of goodwill of subsidiaries	5,869	—
Minimum lease payments under operating leases in respect of land and buildings	1,249	1,071
Write-off of pre-operating expenses of subsidiaries	18,925	10,700
and after crediting:		
Interest income	1,548	89
Expenses capitalised in construction in progress:		
Other staff costs	38,756	9,771
Pension costs	914	—
Depreciation	2,280	8
Minimum lease payments under operating leases in respect of:		
- land and buildings	167	179
- other assets	128	82

6. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank and other loans:		
- wholly repayable within five years	(55,244)	(26,953)
- not wholly repayable within five years	(68,793)	—
	(124,037)	(26,953)
Less: Interest capitalised	89,549	26,953
	(34,488)	—

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



7. TAXATION

	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
The Company and its subsidiaries		
- Hong Kong Profits Tax	—	—
- PRC Enterprise Income Tax	—	—
- Deferred taxation (note 29)	(919)	—
Taxation attributable to the Company and its subsidiaries	(919)	—
Share of taxation attributable to associates and jointly controlled entity		
- Hong Kong Profits Tax	—	—
- PRC Enterprise Income Tax	(139,941)	(4,355)
- Deferred taxation	(22,946)	(2,397)
	(162,887)	(6,752)
	(163,806)	(6,752)

PRC Enterprise Income Tax has been provided for based on the estimated assessable profits in accordance with the relevant tax laws applicable to the subsidiaries, associates and jointly controlled entity in the PRC.

The share of deferred taxation charge attributable to associates and jointly controlled entity principally represents the share of provision for deferred taxation recognised in respect of temporary differences arising as a result of the excess of tax depreciation over accounting depreciation.

The taxation charge can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	870,260	32,171
Less: Share of results of associates	(733,858)	(57,757)
Share of result of a jointly controlled entity	(92,525)	—
Profit (loss) before taxation attributable to the Company and its subsidiaries	43,877	(25,586)
Tax at applicable rate of 17.5% (2002: 16%)	(7,678)	4,094
Tax effect of income that is not taxable in determining current year taxable profit	1,441	357
Tax effect of expenses that are not deductible in determining current year taxable profit	(14,832)	(4,451)
Effect of tax exemptions granted to PRC subsidiaries	23,278	—
Tax effect of tax losses not recognised	(3,128)	—
Tax expense for the year	(919)	—



8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(i) Details of directors' remuneration are as follows:

	2003 HK\$'000	2002 HK\$'000
Non-executive directors		
Fees	137	—
Executive directors		
Fees	—	—
Salaries and other benefits	1,423	538
Pension costs	51	20
Performance related incentive payments	—	449
	1,611	1,007

The directors' remuneration of each director of the Company for each of the years falls within the band of less than HK\$1,000,000.

(ii) Employees

Details of remuneration paid by the Group to the five highest paid individuals (including three (2002: one) directors, whose remunerations are set out above together with the remuneration before their appointments as directors, and remaining two (2002: four) employees) for the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	2,886	1,851
Pension costs	111	77
Performance related incentive payments	—	900
	2,997	2,828

Remuneration of the five highest paid individuals for each of the years falls within the band of less than HK\$1,000,000.

During the year, no remuneration has been paid by the Group to the directors or the five highest paid individuals as an inducements to join or upon joining the Group or as a compensation for loss of office. No directors have waived any remunerations during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



9. RETIREMENT BENEFIT SCHEMES

(a) Hong Kong

The Group participates in a pension scheme, which was registered under the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme and is funded by contributions from employers and employees according to the provisions of the MPF Ordinance.

During the year, the total amounts contributed by the Group to the scheme in Hong Kong and charged to the consolidated income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme are as follows:

	2003 HK\$'000	2002 HK\$'000
Amount contributed and charged to the consolidated income statement	460	206

(b) PRC

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the respective local government in the PRC. The Group is required to contribute a specified percentage of payroll costs to the schemes to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions.

The total cost (i) charged to the consolidated income statement or (ii) capitalised in construction in progress in respect of the above-mentioned schemes in the PRC during each of the years are as follows:

	2003 HK\$'000	2002 HK\$'000
Amount contributed and charged to the consolidated income statement	3,278	—
Amount contributed and capitalised in the construction in progress	914	—



10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2003 HK\$'000	2002 HK\$'000
Net profit for the year and earnings for the purposes of basic and diluted earnings per share	589,460	28,108
	Number of ordinary shares	
	2003	2002
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,886,235,616	2,750,000,000
Effect of dilutive potential ordinary shares:		
Share options	1,054,740	
Over-allotment options	399,981	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	2,887,690,337	

For the purpose of calculation of earnings per share for 2002, the weighted average number of 2,750,000,000 shares in issue for 2002 was assumed that the capitalisation issue pursuant to the Group Reorganisation was taken place on 1 January 2002.

No diluted earnings per share has been presented for 2002 as there were no dilutive potential ordinary shares in 2002.

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Power generating plant and equipment HK\$'000	Motor vehicles, furniture, equipment and others HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP					
COST					
At 1 January 2003	—	—	6,651	1,915,251	1,921,902
Currency realignment	—	—	(18)	(9,274)	(9,292)
Additions	1,142	175	15,984	4,250,868	4,268,169
Transfer	388,435	1,536,341	—	(1,924,776)	—
At 31 December 2003	389,577	1,536,516	22,617	4,232,069	6,180,779
DEPRECIATION					
At 1 January 2003	—	—	622	—	622
Currency realignment	—	—	(1)	—	(1)
Provided for the year	6,919	31,857	2,886	—	41,662
At 31 December 2003	6,919	31,857	3,507	—	42,283
NET BOOK VALUES					
At 31 December 2003	382,658	1,504,659	19,110	4,232,069	6,138,496
At 31 December 2002	—	—	6,029	1,915,251	1,921,280

The Group's land and buildings are situated in the PRC and held under medium term leases.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Motor vehicles furniture, fixtures, equipment and others HK\$'000
THE COMPANY	
COST	
At 1 January 2003	2,088
Additions	701
At 31 December 2003	2,789
DEPRECIATION	
At 1 January 2003	558
Provided for the year	596
At 31 December 2003	1,154
NET BOOK VALUES	
At 31 December 2003	1,635
At 31 December 2002	1,530

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares/capital contribution, at cost	3,010,998	739,817
Amounts due from subsidiaries (note)	3,079,789	3,043,790
	6,090,787	3,783,607

Note: The amounts are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the Company will not demand for the repayment of the amounts within the twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.



12. INTERESTS IN SUBSIDIARIES (CONT'D)

Details of the Company's principal subsidiaries as at 31 December 2003 are set out below.

Name of subsidiary	Place of incorporation/ registration/ and operations	Issued and fully paid share capital/ registered and paid-up capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Leader Best Limited 豐能有限公司	Hong Kong	Ordinary shares - HK\$10,000 Non-voting deferred shares - HK\$10,000	100	—	Investment holding
Resources Shajiao C Investments Limited 香港潤朗沙角投資有限公司	Hong Kong	Ordinary shares - HK\$9,999 Special share - HK\$1	—	73.9	Investment holding
China Resources (Dengfeng Henan) Electric Power Development Company Limited 河南華潤電力(登封)開發有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - US\$26,510,000	85	—	Development of a power station
China Resources (Luoyang) Thermal Power Company Limited 洛陽華潤熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB80,000,000	51	—	Development of a power station
China Resources Power (Changshu) Company Limited 華潤電力(常熟)有限公司 (Wholly-Owned Foreign Enterprise)	PRC	Registered capital - US\$173,520,000 Paid-up capital - US\$69,399,981	100	—	Development of a power station
China Resources Power Hunan Liyujiang Company Limited 湖南華潤電力鯉魚江有限公司 (Sino-Foreign Equity Joint Venture) (note a)	PRC	Registered capital - RMB696,000,000 Paid-up capital - RMB354,960,000	60	—	Operation of a power station
Puqi Sithe Power Generating Company Limited 蒲圻賽德發電有限公司 (Wholly-Owned Foreign Enterprise) (note b)	PRC	Registered capital - US\$150,000,000 Paid-up capital - US\$77,200,000	100	—	Development of a power station
China Resources (Jiaozuo) Thermal Power Co., Ltd. 焦作華潤熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB267,540,000 Paid-up capital - RMB34,079,500	—	60	Development of a power station
China Resources Power Performance Company Limited	BVI#	Share - HK\$0.01	100	—	Investment holding

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



12. INTERESTS IN SUBSIDIARIES (CONT'D)

Name of subsidiary	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered and paid-up capital	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
唐山市西郊熱電二期 工程籌建處 ("Tangshan") (note c)	PRC	N/A	—	80	Development of a power station
河南華潤電力首陽山有限 公司籌辦處 ("Shouyangshan") (note d)	PRC	N/A	—	80	Development of a power station

The company is an investment holding company which has no specific principal place of operations.

The above table lists the subsidiaries of the Group which in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

Notes:

- (a) As at 31 December 2003, the minority shareholder of China Resources Power Hunan Liyujiang Company Limited has not yet paid up the required capital contribution. The Company has notified the minority shareholder to pay up the required capital contribution.
- (b) On 22 October 2002, the Company acquired with cash consideration a 100% equity interest in Puqi Sithe Power Generating Company Limited ("Puqi") from third parties. Upon expiry of the operating period, all the remaining assets (other than the power generating related assets and other property, plant and equipment) of Puqi will be distributed to the Group. The power generating related assets and other property, plant and equipment will be reverted to Hubei Provincial Local Government or other authority department without compensation.
- (c) On 2 May 2003, the pre-operation office - Tangshan was set up by the Company and third parties, and the Company holds 60% interest in such pre-operation office. The pre-operation office undertook all business activities until the pre-operation office completed its registration in January 2004. Upon the establishment of relevant registered company, all of the assets and liabilities and results of the pre-operation office will be taken up by that company. For the purpose of preparation of these financial statements, the assets and liabilities and results of the pre-operation office during the year were included in the consolidated financial statements since its establishment on 2 May 2003. Thereafter during the year, the Company has reached an agreement with the other parties and the Company's interest in Tangshan has been increased from 60% to 80%.
- (d) On 11 April 2003, the pre-operation office - Shouyangshan was set up for pre-operational activities by the Company and third parties, and the Company had a 86% interest in such pre-operation office. Such pre-operation office is undertaking all business activities until the pre-operation office completes its registration. Upon the establishment of relevant registered company, all of the assets and liabilities and results of the pre-operation office will be taken up by that company. For the purpose of preparation of these financial statements, the assets and liabilities and results of the pre-operation office during the year were included in the consolidated financial statements since its establishment on 11 April 2003. Thereafter during the year, the Company has reached an agreement with the other parties and the Company's interest in Shouyangshan has been decreased from 86% to 80%.



13. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of attributable net assets	3,424,633	3,095,208
Unamortised goodwill/negative goodwill	314,824	477,051
Loans to associates (note)	3,739,457 —	3,572,259 15,812
	3,739,457	3,588,071

Note: The amounts were unsecured, bore interest at 10% per annum and fully repaid during the year.

	Negative goodwill HK\$'000	Goodwill HK\$'000	Total HK\$'000
MOVEMENTS OF GOODWILL/NEGATIVE GOODWILL OF ASSOCIATES			
COST			
At 1 January 2002	—	—	—
Arising on acquisition of associates	(19,269)	497,156	477,887
At 31 December 2002	(19,269)	497,156	477,887
Arising on increase of shareholding in associate	(27,899)	—	(27,899)
Eliminated on partial disposal of interest in an associate	—	(44,371)	(44,371)
Fair value adjustment	—	(65,650)	(65,650)
At 31 December 2003	(47,168)	387,135	339,967
AMORTISATION/RELEASE TO INCOME			
At 1 January 2002	—	—	—
Amortised during the year	—	1,824	1,824
Released during the year	(988)	—	(988)
At 31 December 2002	(988)	1,824	836
Amortised during the year	—	29,825	29,825
Released during the year	(2,105)	—	(2,105)
Eliminated on partial disposal of interest in an associate	—	(3,413)	(3,413)
At 31 December 2003	(3,093)	28,236	25,143
CARRYING VALUES			
At 31 December 2003	(44,075)	358,899	314,824
At 31 December 2002	(18,281)	495,332	477,051

The purchased goodwill of associates is amortised over the estimated useful lives of 13 to 19 years.

The negative goodwill of associates is released to income on a straight line basis of 12 to 18 years, the remaining weighted average useful life of the depreciable assets of the associates acquired.

Fair value adjustment on acquisition of an associate in 2002 resulted from the change in the estimation of the tariff imposed by Guangdong Pricing Bureau on Guangdong Guanghope Power Co., Ltd. from 1 July 2002 (see note 39).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



13. INTERESTS IN ASSOCIATES (CONT'D)

Particulars of associates held by the Group at 31 December 2003 are as follows:

Name of associate	Place of registration	Issued and fully paid registered and paid-up capital	Attributable equity interest held by the Group	Principal activities
Guangdong Guanghope Power Co., Ltd. ("Guangdong Guanghope") (note a below) 廣東廣合電力有限公司 (Sino-Foreign Co-operative Joint Venture)	PRC	Registered and paid-up capital - US\$375,000,000	29.56%	Operation of a power station
Hebei Harv Power Generation Company Limited 河北衡豐發電有限責任公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB777,000,000	25%	Operation of a power station
Zhejiang Wenzhou Telluride Power Generating Company Limited ("Wenzhou Telluride") (note b below) 浙江溫州特魯萊電力有限公司 (Sino-Foreign Co-operative Joint Venture)	PRC	Registered capital - RMB861,250,000 Paid-up capital - RMB834,935,000	40%	Operation of a power station
China Resources (Xuzhou) Electric Power Company Limited ("Xuzhou Power") (note c below) 徐州華潤電力有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB458,310,000	35%	Operation of a power station

Notes:

(a) *Guangdong Guanghope - significant associate*

On 23 December 2002, the Company through its wholly-owned subsidiary, China Resources Power Performance Company Limited, acquired for cash consideration from a third party a 82.5% equity interest in Resources Shajiao C Investments Limited ("Resources Shajiao") which holds a 40% interest in Guangdong Guanghope.

Resources Shajiao entered into a joint venture contract and supplemental agreements with Guangdong Province Shajiao (Plant-C) Power Generation Corporation ("Shajiao Power") for the construction, operation and management of the Guangdong Province Shajiao C Power Station in Guangdong Province of the PRC, which are undertaken by Guangdong Guanghope, a co-operative joint venture company established in the PRC. The co-operation period which commenced on 15 June 1992 and will expire 20 years after the contract completion date of construction of the power station in June 1996. Upon expiry of the co-operation period, all the remaining assets of Guangdong Guanghope will be reverted to the PRC partner without compensation.

Resources Shajiao is entitled to a share of 40% of the profit generated by Guangdong Guanghope after the deduction of a special electricity fund to be distributed to Shajiao Power as specified in the joint venture contracts. The special electricity fund is calculated as to 30% of the net profit generated by Guangdong Guanghope for the initial ten years of the co-operation period and as to 60% of the net profit generated by Guangdong Guanghope for the remaining ten years of the co-operation period. No dividend can be declared and paid out by Guangdong Guanghope until all its syndicated borrowings, shareholders' loan and loan related to early generation profits have been repaid, and registered capital has been repatriated. Resources Shajiao is entitled to share the result of Guangdong Guanghope attributable to the Group of an amount of HK\$382,412,000 for the year ended 31 December 2003.



13. INTERESTS IN ASSOCIATES (CONT'D)

Notes: (cont'd)

(a) Guangdong Guanghope - significant associate (cont'd)

In September 2003, 3.9% of the issued share capital of Resources Shajiao (representing 1.56% effective equity interest in Guangdong Guanghope) was acquired by the Group pursuant to a sale and purchase agreement for a cash consideration of US\$10,010,000.

In September 2003, the Group entered into a conditional contract to dispose of 12.5% of the issued share capital of Resources Shajiao for a cash consideration of US\$45,454,545. The agreement was completed on 23 December 2003.

The extracts of the unaudited management accounts prepared under accounting principles generally accepted in Hong Kong for the year ended 31 December 2003 of Guangdong Guanghope and the extracts of audited comparative figures for 2002, are as follows:

Balance sheet

	2003 RMB'000	2002 RMB'000
Non-current assets	8,951,367	9,738,390
Current assets	453,543	425,940
Current liabilities	(509,308)	(546,194)
Non-current liabilities	(621,827)	(1,310,468)
Shareholders' funds	8,273,775	8,307,668

Income statement

	2003 RMB'000	2002 RMB'000
Turnover	4,214,541	4,673,403
Net profit for the year	879,012	1,345,726

Cash flow statement

	2003 RMB'000	2002 RMB'000
Net cash from operating activities	1,643,327	2,723,866
Net cash (used in) from investing activities	(11,939)	448
Net cash used in financing activities	(1,756,430)	(2,666,222)
Net (decrease) increase in cash and cash equivalents	(125,042)	58,092

Litigation and contingent assets

Guangdong Guanghope has sued People's Insurance Company of China ("PICC") in respect of an insurance claim for over US\$100 million arising from a major equipment breakdown in the main transformer of power generator No. 2 taken place between October 2000 and July 2001. From 1996 to 2002, Guangdong Guanghope maintained a business interruption insurance policy with PICC. After the breakdown of power generator No. 2 from October 2000 to July 2001, a dispute arose between Guangdong Guanghope and PICC regarding the nature of the accident and the insurance proceeds entitlement of Guangdong Guanghope. In April 2002, Guangdong Guanghope commenced legal proceedings against PICC at the Guangdong Provincial High Court, and a court hearing date had not been fixed as at 31 December 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



13. INTERESTS IN ASSOCIATES (CONT'D)

Notes: (cont'd)

(b) Wenzhou Telluride

(i) On 27 September 2002, the Company through its wholly-owned subsidiary, China Resources Power Dominance Company Limited ("CRP Dominance"), acquired with cash consideration a 100% equity interest in China Resources Power (Offshore) Limited ("CRP Offshore") from a third party which holds the following effective interests in the following subsidiaries:

- 100% interest in China Resources Telluride Power Limited ("CRP Telluride").
- 100% interest in China Resources Wenzhou Power Limited ("CRP Wenzhou").
- 94% interest in Telluride International Energy Limited Partnership ("Telluride International") which holds 40% interest in Wenzhou Telluride.
- 80% interest in Sithe FWA Power Company Limited which holds 60% interest in Dongguan Houjie Power Company Limited.

Effective on 27 September 2002, the entire issued share capital of CRP Telluride and the entire issued share capital of CRP Wenzhou were transferred by CRP Offshore to CRP Dominance under a sale and purchase agreement entered into pursuant to the Group Reorganisation.

Effective on 27 September 2002 immediately after the completion of the transfer referred to in the preceding paragraph, the entire issued share capital of CRP Offshore, which holds 80% interest in Sithe FWA Power Company Limited, was transferred by CRP Dominance to China Resources (Holdings) Company Limited ("CRH"), an immediate holding company, under a sale and purchase agreement entered into pursuant to the Group Reorganisation.

On 10 June 2003, the entire issued shares of Oxbow Asia-Pacific Power Corporation ("Oxbow"), a company incorporated in the Cayman Islands on 1 July 1994 and holds 6% of the entire partnership interests of Telluride International, was acquired by CRP Dominance from Oxbow Power Corporation pursuant to a sale and purchase agreement dated 10 June 2003. On 29 September 2003, 6% of the entire partnership interests of Telluride International were distributed as a dividend in specie by Oxbow to CRP Dominance. On 30 September 2003, a resolution was passed in general meeting of Oxbow for it to be voluntarily liquidated and its corporate director, CRP Dominance, was appointed as the liquidator.

(ii) Telluride International entered into a joint venture contract with Zhejiang Provincial Electric Power Development Company and Wenzhou Electric Power Investment Company Limited for the construction, operation and management of the Wenzhou Power Station in Zhejiang Province of the PRC, which are undertaken by Wenzhou Telluride, a co-operative joint venture company established in the PRC. The co-operation period shall be approximately 23 years and six months commencing from 25 September 1998. Upon expiry of the co-operation period, all the remaining assets (other than the power generating related assets and other property, plant and equipment) of Wenzhou Telluride will be distributed to owners according to respective equity interest ratio. The power generating related assets and other property, plant and equipment will be reverted to the PRC owners without compensation. As at 31 December 2003 and 2002, the Group owned 100% and 94% effective interest in Telluride International, respectively. Telluride International is entitled to share 40% of the operating surplus of Wenzhou Telluride.

At 31 December 2003, Telluride International has pledged its equity interest in Wenzhou Telluride and a bank deposit amounting to HK\$39,246,000 to a bank for securing the bank loans granted to Wenzhou Telluride of approximately HK\$717,213,000 (2002: HK\$859,218,000).



13. INTERESTS IN ASSOCIATES (CONT'D)

Notes: (cont'd)

(b) Wenzhou Telluride (cont'd)

(ii) (cont'd)

The extracts of the unaudited management accounts prepared under accounting principles generally accepted in Hong Kong for the year ended 31 December 2003 of Wenzhou Telluride and the audited comparative figures, are as follows:

Balance sheet

	2003 RMB'000	2002 RMB'000
Non-current assets	2,718,869	2,873,064
Current assets	394,301	560,880
Current liabilities	(252,515)	(210,706)
Non-current liabilities	(1,554,146)	(2,012,239)
Shareholders' funds	1,306,509	1,210,999

Income statement

	2003 RMB'000	2002 RMB'000
Turnover	1,321,227	1,292,010
Net profit for the year	355,181	351,631

Cash flow statement

	2003 RMB'000	2002 RMB'000
Net cash from operating activities	644,832	618,937
Net cash used in investing activities	(14,948)	(147,507)
Net cash used in financing activities	(806,534)	(281,924)
Net (decrease) increase in cash and cash equivalents	(176,650)	189,506

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



13. INTERESTS IN ASSOCIATES (CONT'D)

Notes: (cont'd)

(c) Xuzhou Power

On 10 September 2003, the Company acquired a 100% equity interest in China Resources Power Excellence Limited, an investment holding company which holds 35% equity interest in Xuzhou Power, from CRH in the form of shareholder's loan. Such shareholder's loan was subsequently capitalised during the year.

The extracts of unaudited management accounts prepared under accounting principles generally accepted in Hong Kong for the year ended 31 December 2003 of Xuzhou Power and its audited comparative figures, are as follows:

Consolidated balance sheet

	2003 RMB'000	2002 RMB'000
Non-current assets	2,418,210	1,848,874
Current assets	519,191	477,586
Current liabilities	(1,426,017)	(851,493)
Non-current liabilities	(469,182)	(627,134)
Minority interests	—	(440)
Shareholders' funds	1,042,202	847,393

Consolidated income statement

	2003 RMB'000	2002 RMB'000
Turnover	997,641	905,499
Net profit for the year	274,579	228,628

Consolidated cash flow statement

	2003 RMB'000	2002 RMB'000
Net cash from operating activities	583,155	426,909
Net cash used in investing activities	(723,441)	(21,526)
Net cash from (used in) financing activities	189,295	(371,061)
Net increase in cash and cash equivalents	49,009	34,322



14. INTEREST IN JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of attributable net assets	992,133	—

Particulars of the jointly controlled entity held by the Group at 31 December 2003 are as follows:

Name of joint venture	Form of business structure	Place of incorporation	Issued and fully paid capital	Attributable equity interest held by the Group	Principal activities
BOCGI China Resources Power Co., Ltd. (Note) 中銀華潤電力有限公司	Incorporated	BVI	Shares - US\$25	40%	Investment holding

Note:

On 17 October 2003, the Group completed its acquisition from CRH a 40% equity interest in BOCGI China Resources Power Co., Ltd., an investment holding company which holds an aggregate of 25% equity interest in Huaneng International Power Development Corporation 華能國際電力開發公司, in the form of shareholder's loan. Such shareholder's loan was then capitalised on 17 October 2003.

15. GOODWILL

	HK\$'000
THE GROUP	
GROSS VALUE	
At 1 January 2002	—
Arising on acquisition of a subsidiary	117,377
At 31 December 2002 and 31 December 2003	117,377
AMORTISATION	
At 1 January 2002 and 31 December 2002	—
Amortised during the year	5,869
At 31 December 2003	5,869
CARRYING VALUES	
At 31 December 2003	111,508
At 31 December 2002	117,377

The goodwill arising on acquisition of a subsidiary is amortised over the estimated useful life of 20 years.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



16. NEGATIVE GOODWILL

	HK\$'000
THE GROUP	
GROSS VALUE	
At 1 January 2002	—
Arising on acquisition of a subsidiary	(54,087)
At 31 December 2002 and 31 December 2003	(54,087)
RELEASE TO INCOME	
At 1 January 2002, 31 December 2002 and 31 December 2003	—
CARRYING VALUES	
At 31 December 2003	(54,087)
At 31 December 2002	(54,087)

The negative goodwill will be released to income on a straight-line basis over the remaining weighted average useful life of the depreciable assets acquired upon the relevant subsidiary commencing its commercial operations.

17. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Coal	1,451	—
Fuel Oil	2,922	—
Spare parts and consumables	5,681	—
	10,054	—

At the balance sheet date, all inventories were stated at cost.

18. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

THE GROUP

Trade receivables are due within 60 days from the date of billing.

The following is an aged analysis of trade receivables at the reporting date:

	2003 HK\$'000	2002 HK\$'000
0 - 30 days	148,633	—
31 - 60 days	91,896	—
	240,529	—



19. AMOUNTS DUE FROM ASSOCIATES

THE GROUP AND THE COMPANY

The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

20. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES/ULTIMATE HOLDING COMPANY

THE GROUP AND THE COMPANY

The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

21. AMOUNT DUE FROM A RELATED COMPANY

THE GROUP AND THE COMPANY

The amount is due from an associate of the immediate holding company of the Company and is unsecured, non-interest bearing and has no fixed terms of repayment.

22. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

THE GROUP

The following is an aged analysis of trade payables at the reporting dates:

	2003 HK\$'000	2002 HK\$'000
0 - 30 days	30,730	—

23. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

THE GROUP AND THE COMPANY

The amount is unsecured, non-interest bearing and has no fixed terms of repayment.

On 17 October 2003, certain amount due to immediate holding company was capitalised as share capital of the Company. Details of the capitalisation issue are set out in note 30.

24. AMOUNTS DUE TO ASSOCIATES

THE GROUP AND THE COMPANY

The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



25. AMOUNTS DUE TO SHAREHOLDERS OF AN ASSOCIATE

THE GROUP

The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

26. LOANS FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
THE GROUP		
Amount shown under current liabilities (note a)	—	16,024
Amount shown under non-current liabilities (note b)	239,393	204,325
	239,393	220,349

Notes:

(a) The amount was unsecured, bore interest at 5.317% per annum and fully repaid on 27 April 2003.

(b) The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

Demand for repayment of the loans will not be made by the minority shareholders of subsidiaries within twelve months from the balance sheet date, accordingly, the amount is shown as non-current liabilities.

27. BORROWINGS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Unsecured bank loans	4,273,528	1,215,407
Unsecured other loans	14,632	—
	4,288,160	1,215,407
The maturity profile of the above loans is as follows:		
Within 1 year	1,915,958	838,367
More than 1 year, but not exceeding 2 years	437,108	—
More than 2 years, but not exceeding 5 years	691,306	311,058
More than 5 years	1,243,788	65,982
	4,288,160	1,215,407
Less: Amount due within 1 year shown under current liabilities	(1,915,958)	(838,367)
Amount due after 1 year	2,372,202	377,040
The above bank and other loans are supported by:		
Guarantees provided by the Company	1,206,268	122,538
Guarantees provided by the Company's immediate holding company	—	226,224
Guarantees provided by the Company's ultimate holding company	—	406,656
Guarantees provided by minority shareholders of subsidiaries	810,432	412,859
Guarantees provided by a third party	—	47,130
No guarantee required	2,271,460	—
	4,288,160	1,215,407



28. LOANS FROM IMMEDIATE HOLDING COMPANY

THE GROUP AND THE COMPANY

The amounts were unsecured, non-interest bearing and had no fixed terms of repayment.

On 17 October 2003, the loan from immediate holding company were capitalised as share capital of the Company. Details of the capitalisation issue are set out in note 30.

29. DEFERRED TAXATION

	2003 HK\$'000	2002 HK\$'000
THE GROUP		
At 1 January	5,942	—
Currency realignment	3	—
On acquisition of a subsidiary	—	5,942
Charge to income for the year (note 7)	(919)	—
At 31 December	5,026	5,942

The following is the analysis of the deferred taxation balances for financial reporting purposes:

	2003 HK\$'000	2002 HK\$'000
Deferred taxation assets	5,942	5,942
Deferred taxation liabilities	(916)	—
	5,026	5,942

The deferred taxation assets (liabilities) represent the tax effect of temporary differences arising as a result of the differences between accounting depreciation and tax depreciation.

The Company did not have any significant deferred taxation assets (liabilities) as at 31 December 2003 and 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



30. SHARE CAPITAL

	Number of shares		Amount	
	2003 '000	2002 '000	2003 HK\$'000	2002 HK\$'000
Ordinary shares of HK\$1.00 each				
Authorised:				
Balance at 1 January	3,600,000	360,000	3,600,000	360,000
Increase during the year (note a)	6,400,000	3,240,000	6,400,000	3,240,000
Balance at 31 December	10,000,000	3,600,000	10,000,000	3,600,000
Issued and fully paid:				
Balance at 1 January	10	10	10	10
Issues of shares:				
-by capitalisation issue pursuant to Group Reorganisation (note b)	2,749,990	—	2,749,990	—
-upon listing (note c)	1,058,000	—	1,058,000	—
Balance at 31 December	3,808,000	10	3,808,000	10

- (a) Pursuant to a resolution in writing of all the shareholders passed on 14 May 2002, the authorised share capital of the Company was increased from HK\$360,000,000 to HK\$3,600,000,000, by the creation of a further 3,240,000,000 shares of HK\$1 each ranking pari passu in all respects with the then existing shares of the Company.

Pursuant to the resolutions in writing passed on 6 October 2003 by all shareholders of the Company, the authorised share capital of the Company was further increased from HK\$3,600,000,000 to HK\$10,000,000,000 by the creation of 6,400,000,000 new shares of HK\$1 each. These shares rank pari passu in all respects with the then existing shares.

- (b) On 17 October 2003, the Company allotted and issued an aggregate of 2,749,990,000 shares, credited as fully paid, to its immediate holding company, CRH, by way of capitalisation of outstanding shareholder's loans ("Capitalisation Issue") as at that date owing by the Company to CRH, after taking into consideration the following events:
- (i) CRH lent US\$10,010,000 to the Company for the acquisition of an aggregate of 1.56% effective equity interest in Guangdong Guanghope from Bank of China Group Investment Limited and Nam Tung (Macao) Investment Ltd. in September 2003; and
 - (ii) the Company will repay CRH US\$10,010,000, using part of the proceeds which was received by the Company from China Hua Neng Hong Kong Limited ("HGHK") upon the completion on 23 December 2003 between the Company (as the vendor) and HNGHK (as the purchaser) for the disposal of 5% equity interest in Guangdong Guanghope. Such amount is included in the amount due to immediate holding company in note 23.

Upon the completion of the Capitalisation Issue, no sum remains due and payable by the Company to CRH other than the sum set out in paragraph (b) above.

These shares rank pari passu in all respects with the then existing shares.



30. SHARE CAPITAL (CONT'D)

- (c) On 12 November 2003 and 5 December 2003, the Company allotted and issued 920,000,000 shares of HK\$1 each upon listing on the Stock Exchange and 138,000,000 shares of HK\$1 each upon the exercise of the over-allotment options as set out in note 31, both at a price of HK\$2.80 per share, respectively. These shares rank pari passu in all respects with the then existing shares.

31. SHARE OPTION

Pursuant to a resolution in writing passed on 6 October 2003 by all shareholders of the Company, a Pre-IPO Share Option Scheme and a Share Option Scheme have been adopted by the Company.

- (a) Pre-IPO Share Option Scheme

On 6 October 2003, the Company granted options to subscribe for 167,395,000 shares in the Company at an exercise price of HK\$2.80 per share, upon payment of HK\$1 per grant. Options granted are exercisable within a period of ten years within which there is a total vesting period of five years. 20% of share options will be allowed to exercise upon each of the first five anniversary dates.

Movement of options during the year is as follows:

	Number of options granted on 6.10.2003	Number of options lapsed or cancelled during the year	Number of options outstanding at 31.12.2003
Directors of the Company	17,500,000	—	17,500,000
Directors of CRH	3,600,000	—	3,600,000
Employees of the Company	101,575,000	—	101,575,000
Employees of CRH and its subsidiaries	44,720,000	110,000	44,610,000
	167,395,000	110,000	167,285,000

The purpose of the Pre-IPO Share Option Scheme is to, amongst others, give the participants an opportunity to have a personal stake in the Company and help to motivate the participants to optimise their performance and efficiency and retain participants whose contributions are important to the long-term growth and profitability of the Group.

Total consideration received during the year for the options granted was amounted to HK\$591.



31. SHARE OPTION (CONT'D)

(b) Share Option Scheme

Pursuant to the Share Option Scheme approved by the resolution of the shareholders of the Company dated 6 October 2003, the Board may, at its absolute discretion, offer any employee, director, consultant or advisor of (i) CRH and its subsidiaries, and (ii) the Company, its subsidiaries and associated companies, option to subscribe for the Company's shares, for the promotion of success of the business of the Group. The exercise price of the share option will be determined at the higher of (1) the closing price of the Company's shares on the Stock Exchange on the date of grant of the option; (2) the average closing price of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant; and (3) the nominal value of the shares.

Options granted are exercisable within a period of ten years within which there is a total vesting period of five years. 20% of share options will be allowed to exercise on each of the first five anniversary dates.

No option was granted by the Company under the Share Option Scheme since its adoption.

Pursuant to the International Underwriting Agreement dated 7 November 2003, the Company has granted options (the "Over-allotment Options") to the placing underwriters exercisable on the earlier of 30 days after the last day for lodging of applications for the Company's offer for subscription by the public in Hong Kong or the commencement of trading of the Company's shares on the Stock Exchange to require the Company to allot and issue up to an aggregate of 138,000,000 additional shares of the Company at the offer price upon listing of HK\$2.80 per share. On 5 December 2003, the Over-allotment options were exercised and 138,000,000 shares were issued at a price of HK\$2.80 per share.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.



32. RESERVES

THE GROUP

Details of changes in reserves of the Group are set out in the consolidated statement of changes in equity on page 62.

General reserve is part of shareholders' funds and comprises statutory surplus reserve, enterprise expansion fund and reserve fund of subsidiaries, associates and a jointly controlled entity in the PRC.

The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of subsidiaries acquired pursuant to the Group Reorganisation.

At 31 December 2003, the retained profits of the Group include approximately HK\$525,083,000 (2002: HK\$45,095,000) and HK\$32,416,000 (2002: nil) retained by associates and jointly controlled entity of the Group, respectively.

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<u>THE COMPANY</u>				
At 1 January 2002	—	—	(2,817)	(2,817)
Reserve arising from the Group				
Reorganisation	—	82,309	—	82,309
Net loss for the year	—	—	(13,453)	(13,453)
At 31 December 2002	—	82,309	(16,270)	66,039
Capitalisation of shareholder's loans	2,672,066	—	—	2,672,066
Shares issued at premium	1,904,400	—	—	1,904,400
Share issue expenses	(107,474)	—	—	(107,474)
Net loss for the year	—	—	(13,932)	(13,932)
At 31 December 2003	4,468,992	82,309	(30,202)	4,521,099

The merger reserve of the Company represents the difference between the aggregate net assets of the subsidiaries acquired by the Company under the Group Reorganisation and the nominal amount of the Company's shares issued of the acquisition.

Reserves of the Company available for distribution to shareholders amounted to HK\$52,107,000 as at 31 December 2003 (2002: HK\$66,039,000).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



33. ACQUISITIONS OF SUBSIDIARIES/BUSINESS

During the year, the Group acquired 100% of the issued share capital of China Resources Power Excellence Limited and 100% of the issued share capital of China Resources Power Notary Co., Ltd. for consideration in the form of shareholder's loans. Such shareholder's loans were capitalised during the year. These acquisitions have been accounted for by the acquisition method of accounting.

	2003 HK\$'000	2002 HK\$'000
NET ASSETS/BUSINESS ACQUIRED		
Property, plant and equipment	—	203,918
Interests in associates	314,285	2,837,651
Interest in jointly controlled entity	929,703	—
Deferred taxation assets	—	5,942
Other receivables and prepayments	—	336
Amount due from an associate	—	40,692
Bank balances and cash	—	32,255
Other payables and accruals	—	(72,783)
Amount due to immediate holding company	1	—
Amount due to a fellow subsidiary	—	(827)
Loans from minority shareholders	—	(204,325)
Bank loans	—	(47,130)
Minority interests	—	(242,194)
Shareholders' loans and inter-company debts	—	(981,189)
	1,243,989	1,572,346
Shareholders' loans and inter-company debts purchased	—	981,189
Negative goodwill attributable to a subsidiary	—	(54,087)
Goodwill attributable to a subsidiary	—	117,377
Goodwill attributable to associates (note)	—	497,156
	1,243,989	3,113,981
SATISFIED BY		
Cash	—	3,113,981
Capitalisation issue of shares as part of Group Reorganisation	1,243,989	—
	1,243,989	3,113,981
NET CASH OUTFLOW ARISING ON ACQUISITIONS		
Cash consideration	—	3,113,981
Balance of consideration payable	—	(56,894)
Bank balances and cash acquired	—	(32,255)
	—	3,024,832
Net outflow of cash and cash equivalents in respect of the acquisitions of subsidiaries/business	—	3,024,832

Note: Goodwill attributable to associates arose from the acquisition of subsidiary holding an associate.



34. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2003 HK\$'000	2002 HK\$'000
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	3,735,146	101,635
Less: Pledged bank deposits	(39,246)	—
	3,695,900	101,635

35. OPERATING LEASE COMMITMENTS

THE GROUP AND THE COMPANY AS LESSEE

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2003		2002	
	Land and buildings HK\$'000	Other assets HK\$'000	Land and buildings HK\$'000	Other assets HK\$'000
THE GROUP				
Within one year	1,380	162	563	12
In the second to fifth year inclusive	926	514	—	516
Over five years	—	2,473	—	2,560
	2,306	3,149	563	3,088
THE COMPANY				
Within one year	858	—	563	—
In the second to fifth year inclusive	476	—	—	—
	1,334	—	563	—

Operating lease payments represent rentals payable by the Group for its office properties and other assets which represented motor vehicles, railway and related facilities.

Leases are negotiated for an average term of 2 to 25 years and rentals are fixed for an average of 1 to 2 years.

36. CAPITAL COMMITMENTS

	2003 HK\$'000	2002 HK\$'000
THE GROUP		
Capital expenditure in respect of the acquisition of construction in progress:		
-Authorised but not contracted for	23,735	665,665
-Contracted for but not provided in the financial statements	6,277,163	4,241,421
THE COMPANY		
Unpaid capital contribution to subsidiaries	1,142,332	2,180,713

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2003



37. CONTINGENT LIABILITIES

	2003 HK\$'000	2002 HK\$'000
THE COMPANY		
Guarantees given to banks for credit facilities granted to subsidiaries (to the extent of facilities utilised)	1,206,268	122,538

38. RELATED PARTY TRANSACTIONS

The Company entered into two trade mark licence agreements dated 17 October 2003 with CRNC and CRH, respectively, under which the Company was granted irrevocable, royalty free and non-exclusive licences to use certain trade marks and the rights to sub-license the same to any member of the Group in consideration of a nominal amount of HK\$1 each.

A deed of option dated 17 October 2003 was executed by CRH in favour of the Company, under which the Company was granted options, in consideration of a nominal amount of HK\$1, to acquire from CRH its entire (i) 48% interest in Dongguan Houjie Power Company Limited, (ii) 65% interest in Yunnan China Resources Power (Honghe) Company Limited and (iii) 55% interest in Fuyang China Resources Power Company Limited. The Company may exercise its rights to acquire each of these power plants within 10 years from the date of the deed of option. The exercise price would be an amount equal to the net book value of each power plant which will be shown in the financial statements of CRH or a price as determined by an independent valuer as agreed by the parties to the deed of option with reference to the market value as at the date on which each option is exercised.

A deed of option dated 17 October 2003 was executed by CRNC in favour the Company, under which the Company was granted an option, in consideration of a nominal amount of HK\$1, to acquire all of CRNC's interest in 25% of the entire registered capital of Hengshui Hengxing Power Generation Co., Ltd. ("Hengfeng Phase II"). Subject to the approval of the shareholders, the Company may exercise its right of acquisition within 10 years from the date of the deed of option. The exercise price would be an amount equal to the net book value of Hengfeng Phase II which will be shown in the financial statements of CRNC or a price as determined by an independent valuer as agreed by the parties to the deed of option with reference to the market value as at the date on which the option is exercised.

In addition, the Group entered into the following significant transactions with related parties during the year:

Name of related company	Relationship	Nature of transactions	2003 HK\$'000	2002 HK\$'000
China Resources Property Management Co., Ltd.	Fellow subsidiary	Rental expenses paid by the Group (note a)	1,249	779
Wenzhou Telluride	Associate	Service income received by the Company (note a)	3,900	975
Guangdong Guanghope	Associate	Interest received by the Group (note b)	663	—
Guangdong Guanghope	Associate	Reimbursement of repairs and maintenance fee to Guangdong Guanghope (note c)	6,420	—
CRH	Immediate holding company	Management fee income received by the Company (note a)	542	—
CRNC	Ultimate holding company	Management fee income received by the Company (note a)	62	—



38. RELATED PARTY TRANSACTIONS (CONT'D)

Notes:

- (a) *The transactions were carried out in accordance with the relevant agreements.*
- (b) *The transactions were carried out with reference to prevailing rate of interest.*
- (c) *The transactions were carried out on actual cost incurred basis.*

Saved as the above, the Group also had balances with related parties at the balance sheet dates which are set out in notes 19 to 21, 23 to 26 and 28, respectively.

39. SUBSEQUENT EVENT

Pursuant to a legally binding memorandum of understanding (the "MOU") entered into among Resources Shajiao, a subsidiary of the Company, Shajiao Power and Guangdong Province Yudean Group Co., Ltd. dated 26 February 2004, the mandatory tariff reduction imposed by the Guangdong Province Pricing Bureau on Guangdong Guanghope as from 1 July 2002 shall be restored as if there were no tariff reduction and be calculated according to the terms of the operation and offtake agreement dated 18 December 1992 (as amended) between Guangdong Province Guangdong Group Co., Ltd. (the "Operation and Offtake Agreement") and Guangdong Guanghope and the joint venture agreement dated 4 June 1992 (as amended) between Shajiao Power and Resources Shajiao (the "JV Agreement") to the extent to which the distributable net profits related to Guangdong Guanghope's minimum on-grid power output of 10,800,000,000 kWh per year. As a result, the fair value of net assets of Guangdong Guanghope shared by Resources Shajiao in 2002 was increased to the amount that would have been determined had no tariff reduction taken place. Accordingly, the goodwill arising from the acquisition of Resources Shajiao in 2002 was adjusted in accordance with the MOU, the Operation and Offtake Agreement and the JV Agreement.