

# Notes to the Financial Statements

For the year ended 31 December 2003

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in note 41 to the financial statements.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted for the first time, Hong Kong Financial Reporting Standards (“HKFRS”) – Statement of Standard Accounting Practice (“SSAP”) 12 (Revised) “Income taxes” issued by the Hong Kong Society of Accountants (“HKSA”). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has no significant effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal 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. 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 up to the effective dates of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been 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 a subsidiary or associate at the date of acquisition.

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

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

### *Investments in subsidiaries*

Investments in subsidiaries are included in the Company’s balance sheet at cost less any identified impairment loss.

### 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

#### *Investments in associates*

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid on acquisition in so far as it has not been amortised, less any identified impairment loss.

#### *Revenue recognition*

Revenue from electricity supply operations is recognised when electricity is supplied.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

#### *Property, plant and equipment*

Property, plant and equipment are stated at cost less depreciation and impairment loss.

Depreciation is provided so as to write off the cost of property, plant and equipment other than construction in progress, using the straight-line method over their estimated useful lives which are as follows:

Leasehold land	Over the lease term
Buildings	Over the lease term or 50 years, whichever is shorter
Leasehold improvements	5 years or over the lease term, whichever is shorter
Furniture, fixtures and equipment	5 years
Plant and machinery	10 years
Motor vehicles	5 years

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

#### *Construction in progress*

Construction in progress is stated at cost which includes all development expenditure and other direct costs, including borrowing costs, attributable to such projects. Costs on completed construction works are transferred to other categories of property, plant and equipment.

#### *Impairment*

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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 loss is recognised as an 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

#### *Investments in securities*

Investments in securities are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

#### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

#### *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

#### *Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods, and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits 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 that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

**3. SIGNIFICANT ACCOUNTING POLICIES – continued***Operating leases*

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

*Foreign currencies*

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits 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 overseas operations 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 benefits scheme*

Payments to the Mandatory Provident Fund Scheme/state-managed retirement benefit scheme are charged as an expense as they fall due.

**4. TURNOVER**

	2003 HK\$'000	2002 HK\$'000
Turnover of the Group is analysed as follows:		
Electricity supplies	559,797	114,792
Property leasing	–	453
	<u>559,797</u>	<u>115,245</u>

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS***Business segments*

For management purposes, the Group was organised into three operating divisions – electricity supplies, property leasing and investment holding in prior years. The property leasing business was ceased during the year upon the disposal of the investment property. Therefore, the Group currently has two reportable divisions. These divisions are the basis on which the Group reports its primary segment information.

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS – *continued*

### *Business segments*

Segment information about these businesses is presented below.

#### Year ended 31 December 2003

	Continuing operations		Discontinuing operations	Consolidated
	Electricity supplies HK\$'000	Investment holding HK\$'000	Property leasing HK\$'000	
<b>TURNOVER</b>	<u>559,797</u>	<u>–</u>	<u>–</u>	<u>559,797</u>
<b>RESULT</b>				
Segment result	<u>119,051</u>	<u>313</u>	<u>(10)</u>	119,354
Finance costs				(18,384)
Interest income				575
Unallocated corporate expenses				(3,429)
<b>Profit before taxation</b>				<u>98,116</u>
Taxation				(8,899)
<b>Profit before minority interests</b>				<u>89,217</u>

#### Year ended 31 December 2002

<b>TURNOVER</b>	<u>114,792</u>	<u>–</u>	<u>453</u>	<u>115,245</u>
<b>RESULT</b>				
Segment result	<u>6,840</u>	<u>(67,929)</u>	<u>(4,895)</u>	(65,984)
Finance costs				(5,666)
Interest income				843
Share of results of associates				2,611
Unallocated corporate expenses				(13,466)
<b>Loss before taxation</b>				<u>(81,662)</u>
Taxation				(111)
<b>Loss before minority interests</b>				<u>(81,773)</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – *continued**Business segments – continued**Balance sheet*

	Continuing operations		Discontinuing operations	Consolidated HK\$'000
	Electricity supplies HK\$'000	Investment holding HK\$'000	Property leasing HK\$'000	
<b>At 31 December 2003</b>				
<b>ASSETS</b>				
Segment assets	902,452	288,181	–	1,190,633
Unallocated corporate assets				227,187
<b>Consolidated total assets</b>				<b>1,417,820</b>
<b>LIABILITIES</b>				
Segment liabilities	(122,820)	–	–	(122,820)
Borrowings	(485,501)	(75,000)	–	(560,501)
Unallocated corporate liabilities				(6,548)
<b>Consolidated total liabilities</b>				<b>(689,869)</b>
<b>OTHER INFORMATION</b>				
Capital additions	105,333	14	–	105,347
Depreciation and amortisation	44,802	11,359	–	56,161
<b>At 31 December 2002</b>				
<b>ASSETS</b>				
Segment assets	670,609	299,362	672	970,643
Investment in associates				563
Unallocated corporate assets				38,538
<b>Consolidated total assets</b>				<b>1,009,744</b>
<b>LIABILITIES</b>				
Segment liabilities	(123,593)	–	(45)	(123,638)
Borrowings	(361,085)	(197,000)	–	(558,085)
Unallocated corporate liabilities				(12,796)
<b>Consolidated total liabilities</b>				<b>(694,519)</b>
<b>OTHER INFORMATION</b>				
Capital additions	443,363	–	–	443,363
Depreciation and amortisation	11,233	11,453	–	22,686
Impairment loss of investment securities	–	13,300	–	13,300

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS – *continued*

### *Geographical segments*

The analysis of the Group's turnover by geographical market is as follows:

	Turnover by geographical market	
	2003 HK\$'000	2002 HK\$'000
The People's Republic of China ("PRC")	559,797	114,792
Hong Kong	–	453
	<u>559,797</u>	<u>115,245</u>

An analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area is as follows:

	Carrying amount of segment assets		Capital additions	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
PRC	985,642	754,360	105,333	443,363
Hong Kong	432,178	255,384	14	–
	<u>1,417,820</u>	<u>1,009,744</u>	<u>105,347</u>	<u>443,363</u>

## 6. OTHER INCOME

	2003 HK\$'000	2002 HK\$'000
Other income includes the following income		
Management fee income ( <i>note</i> )	5,540	–
Interest income on bank deposit	575	751
Other interest income	–	92
Others	836	250
	<u>6,951</u>	<u>1,093</u>

*Note:* Details of the management fee income are set out in note 39(c) to the financial statements.

## 7. LOSS ARISING FROM INVESTMENT PROPERTIES

	2003 HK\$'000	2002 HK\$'000
Loss on disposal of investment properties	–	5,137
Deficit arising on revaluation	–	30
	<u>–</u>	<u>5,167</u>

**8. OTHER OPERATING EXPENSES**

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Other operating expenses comprise:		
Amortisation of goodwill	11,181	7,454
Loss on disposal of property, plant and equipment	252	–
Severance payment	–	105
Others	83	–
	<u>11,516</u>	<u>7,559</u>

**9. PROFIT (LOSS) FROM OPERATIONS**

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Profit (loss) from operations has been arrived at after charging:		
Auditors' remuneration		823
Depreciation and amortisation:	474	
Owned assets	44,980	11,577
Minimum lease payment under operating lease in respect of rented premises	4,940	1,589
Staff costs:		
Retirement benefits scheme contributions	138	201
Staff costs (including Directors' remuneration)	15,043	9,113
Total staff costs	15,181	9,314
Cost of inventories recognised as an expense	<u>355,118</u>	<u>77,803</u>
and after crediting:		
Operating lease rental income in respect of investment properties, net of outgoings of HK\$nil (2002: HK\$128,000)	<u>–</u>	<u>325</u>

**10. FINANCE COSTS**

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest on borrowings wholly repayable within five years:		
Bank borrowings	14,924	10,312
Loan from a shareholder	4,456	3,886
	<u>19,380</u>	<u>14,198</u>
Interest on bank borrowings not wholly repayable within five years	3,378	303
Total borrowing costs	<u>22,758</u>	<u>14,501</u>
Less: Amounts capitalised	<u>4,374</u>	<u>8,835</u>
	<u><u>18,384</u></u>	<u><u>5,666</u></u>

Borrowing costs capitalised during the year arising on borrowings are calculated by applying a capitalisation rate of 4.2% (2002: 2.13%) to expenditure on qualifying assets.

**11. DISCONTINUING OPERATION**

In March 2003, the Group entered into a sale and purchase agreement to dispose of its investment property, which represented the Group's property leasing operations in Hong Kong. The disposal was effected in order to generate cash flow for the expansion of the Group's other business. The disposal was completed in April 2003.

The results of the property leasing operations for the period from 1 January 2003 to the date of disposal have been included in the financial statements, and were as follows:

	1.1.2003 to date of disposal <i>HK\$'000</i>	Year ended 31.12.2002 <i>HK\$'000</i>
Turnover	–	453
Operating costs	(10)	(5,064)
Finance costs	–	(284)
	<u>–</u>	<u>(4,895)</u>
Net loss for the period	<u><u>(10)</u></u>	<u><u>(4,895)</u></u>

During the year, the property leasing operation contributed an outflow of HK\$10,000 (2002: an inflow of HK\$271,000) to the Group's net operation cash flows, received HK\$544,000 (2002: HK\$22,353,000) in respect of investing activities and had no cash flows in respect of financing activities (2002: an outflow of HK\$18,324,000).

A loss of HK\$126,000 was incurred on the disposal of the investment property. No tax charge or credit arose from the disposal.

**12. DIRECTORS' REMUNERATION**

	2003 HK\$'000	2002 HK\$'000
Directors' fees:		
Executive	–	–
Independent non-executive	300	320
	<u>300</u>	<u>320</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	2,370	2,629
Contractual payments for loss of office of former directors	–	1,080
Retirement benefits scheme contributions	90	128
	<u>2,760</u>	<u>4,157</u>

Emoluments of the directors were within the following bands:

	2003 Number of directors	2002 Number of directors
HK\$ nil to HK\$1,000,000	8	11
HK\$1,000,001 to HK\$1,500,000	–	2
HK\$1,500,001 to HK\$2,000,000	<u>1</u>	<u>–</u>

**13. EMPLOYEES' EMOLUMENTS**

The six individuals with the highest emoluments in the Group included three executive directors (2002: four executive directors), whose emoluments are included in the amounts disclosed in note 12. The emoluments of the remaining three individuals (2002: two individuals) for the year ended 31 December 2003 are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	1,028	815
Retirement benefits scheme contributions	40	37
	<u>1,068</u>	<u>852</u>

Their emoluments are within the following band:

	2003 Number of employees	2002 Number of employees
HK\$ nil to HK\$1,000,000	<u>3</u>	<u>2</u>

**14. INCOME TAXES**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Current tax:		
PRC income tax	8,899	–
Taxation attributable to the Company and its subsidiaries	8,899	–
Taxation attributable to an associate	–	111
Total	<u>8,899</u>	<u>111</u>

No provision for Hong Kong Profits Tax has been in the financial statements as the Group incurred tax losses in both years.

Pursuant to relevant laws and regulations in the PRC, the Group's subsidiary operating in the PRC is entitled to an exemption from income tax under certain tax holidays and concessions. Income tax is calculated at rates given under the respective concessions.

The taxation charge for the prior year represented the share of taxation other than in Hong Kong attributable to associates calculated at rates prevailing in the relevant jurisdictions.

Details of deferred taxation are set out in note 31.

	2003 HK\$'000	2002 HK\$'000
Profit (loss) before taxation	<u>98,116</u>	<u>(81,662)</u>
Tax (charge) credit at domestic income tax rate of 17.5% (2002: 16%)	(17,170)	13,066
Tax effect of share of results of associates	–	(346)
Tax effect of expenses not deductible for tax purpose	(1,965)	(1,994)
Tax effect of income that is not taxable in determining taxable profit	87	173
Tax losses not recognised	(1,244)	(14,859)
Effect of tax exemption granted to a PRC subsidiary	11,297	2,100
Effect of different tax rate of a subsidiary operating in the PRC	72	1,749
Utilisation of tax losses previously not recognised	24	–
Taxation for the year	<u>(8,899)</u>	<u>(111)</u>

**15. EARNINGS (LOSS) PER SHARE**

The calculation of the basic earnings (loss) per share is based on the net profit for the year of HK\$57,466,000 (2002: loss of HK\$85,697,000) and on the weighted average number of 333,610,723 (2002: 150,864,502) ordinary shares in issue during the year.

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price of shares for the year ended 31 December 2003.

No diluted loss per share has been calculated for the year ended 31 December 2002 as the exercise of the share options would result in a decrease in the loss per share.

**16. DIVIDEND**

No dividend was paid or proposed during 2003, nor has any dividend been proposed since the balance sheet date (2002: HK\$nil).

**17. INVESTMENT PROPERTIES**

	<b>THE GROUP</b> HK\$'000
AT VALUATION	
At 1 January 2003	670
Disposals	(670)
	<hr/>
At 31 December 2003	<u><u>–</u></u>

During the year, the Group disposed of its investment property at a consideration of HK\$544,000.

The Group's investment property was situated in Hong Kong and held under medium-term lease.

**18. PROPERTY, PLANT AND EQUIPMENT**

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
<b>COST</b>							
At 1 January 2003	88,729	478	1,130	75,059	1,818	413,825	581,039
Additions	–	–	55	104	988	104,200	105,347
Transfer from construction in progress	11,941	–	1,184	441,936	547	(455,608)	–
Written off	–	(478)	(671)	–	–	–	(1,149)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	100,670	–	1,698	517,099	3,353	62,417	685,237
<b>DEPRECIATION</b>							
At 1 January 2003	2,541	405	636	8,204	372	–	12,158
Provided for the year	3,812	73	183	40,108	804	–	44,980
Eliminated on write off	–	(478)	(416)	–	–	–	(894)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	6,353	–	403	48,312	1,176	–	56,244
<b>NET BOOK VALUES</b>							
At 31 December 2003	<u>94,317</u>	<u>–</u>	<u>1,295</u>	<u>468,787</u>	<u>2,177</u>	<u>62,417</u>	<u>628,993</u>
At 31 December 2002	<u>86,188</u>	<u>73</u>	<u>494</u>	<u>66,855</u>	<u>1,446</u>	<u>413,825</u>	<u>568,881</u>

**18. PROPERTY, PLANT AND EQUIPMENT – continued**

	<b>Leasehold improvements</b> <i>HK\$'000</i>
<b>THE COMPANY</b>	
COST	
At 1 January 2003	478
Written off	(478)
	<hr/>
At 31 December 2003	–
	<hr/>
DEPRECIATION	
At 1 January 2003	405
Provided for the year	73
Eliminate on write off	(478)
	<hr/>
At 31 December 2003	–
	<hr/>
NET BOOK VALUES	
At 31 December 2003	–
	<hr/>
At 31 December 2002	<u>73</u>

The leasehold land and buildings are held under medium term leases and are situated in the PRC.

Included in construction in progress is net interest capitalised of approximately HK\$4,374,000 (2002: HK\$8,835,000).

**19. INTERESTS IN SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	<b>435,400</b>	435,400
Less: Impairment losses recognised	<b>(161,398)</b>	(161,398)
	<hr/> <b>274,002</b>	<hr/> 274,002
Amounts due from subsidiaries	<b>584,969</b>	586,488
Allowance for amounts due from subsidiaries	<b>(415,855)</b>	(417,374)
	<hr/> <b>169,114</b>	<hr/> 169,114
	<hr/> <b>443,116</b>	<hr/> <u>443,116</u>

Details of the principal subsidiaries of the Company as at 31 December 2003 are set out in note 41.

**20. GOODWILL**

	<b>THE GROUP</b> <i>HK\$'000</i>
COST	
At 1 January 2002	
Arising on acquisition during the year	148,628
At 1 January 2003	148,628
Adjustment to purchase consideration	75,000
At 31 December 2003	223,628
AMORTISATION	
At 1 January 2002	–
Provided for the year	7,454
At 1 January 2003	7,454
Provided for the year	11,181
At 31 December 2003	18,635
NET BOOK VALUES	
<b>At 31 December 2003</b>	<b>204,993</b>
At 31 December 2002	141,174

The goodwill represents principally the premium arising on the acquisition of subsidiaries and is amortised over a period of twenty years.

Details of the adjustment to purchase consideration are set out in note 39 to the financial statements.

**21. INTERESTS IN ASSOCIATES**

	<b>THE GROUP</b>	
	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Share of net assets	–	563
Premium on acquisition of associates	–	–
	–	563

During the year, Everlink Cable Engineering Consulting Company Limited, an associate of the Group was liquidated. The results of the associate for the period from 1 January 2003 to the date of liquidation was not significant. The proceeds from the liquidation of the associate was HK\$525,000.

**22. INVESTMENTS IN SECURITIES**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Investment securities, carried at cost less impairment:		
Unlisted shares	83,188	83,188
Club debentures	1,486	1,486
	<u>84,674</u>	<u>84,674</u>

The Group owned 41% equity interest in Xin Hua Control Engineering Company Limited ("Xin Hua"), a sino-foreign equity joint venture established in the PRC. In 2002, in the opinion of the directors, the group no longer has significant influence over Xin Hua. Accordingly, the carrying value of Xin Hua was reclassified to investments in securities.

**23. INVENTORIES**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials and consumables	<u>38,700</u>	<u>23,942</u>

The inventories are stated at cost.

**24. DEBTORS AND CREDITORS**

An analysis of the balance of debtors, deposits and prepayments is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Trade debtors	76,879	19,160
Other receivables, deposits and prepayments	17,405	2,878
Amount due from a shareholder	–	75,000
	<u>94,284</u>	<u>97,038</u>

The following is an aged analysis of the trade debtors at 31 December 2003:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 60 days	<u>76,879</u>	<u>19,160</u>

The Group allows an average credit period of 60 days to its customer.

**24. DEBTORS AND CREDITORS – continued**

An analysis of the balance of creditors and accrued charges is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Trade creditors	24,650	19,005
Other creditors and accrued charges	67,219	79,086
	<u>91,869</u>	<u>98,091</u>

The following is an aged analysis of the trade creditors at 31 December 2003:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 60 days	22,882	19,005
Over 180 days	1,768	–
	<u>24,650</u>	<u>19,005</u>

**25. AMOUNT DUE FROM/TO AN ASSOCIATE, AMOUNT DUE TO A SHAREHOLDER AND LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY**

THE GROUP AND THE COMPANY

The amounts are unsecured, interest free and repayable on demand.

**26. LOAN FROM A SHAREHOLDER**

THE GROUP AND THE COMPANY

The amount is secured by shares of the Company and Sinolink Industrial Limited, a subsidiary of the Company.

**27. SECURED BANK BORROWINGS**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Bank borrowings comprise the following:		
Bank loans	<u>485,501</u>	<u>361,085</u>
The bank borrowings are repayable as follows:		
Within one year	147,821	–
More than one year, but not exceeding two years	71,581	37,418
More than two years, but not exceeding five years	242,806	323,667
More than five years	23,293	–
	<u>485,501</u>	<u>361,085</u>
Less: Amount due within one year shown under current liabilities	(147,821)	–
	<u>337,680</u>	<u>361,085</u>

## 27. SECURED BANK BORROWINGS – continued

During the year, the Group obtained and renewed the terms of certain bank borrowings with certain banks. At the balance sheet date, an aggregate amount of RMB230,000,000 (equivalent to approximately HK\$215,000,000) and US\$25,000,000 (equivalent to approximately HK\$195,000,000) were secured by the plant and machinery and leasehold land and buildings of the Group with a carrying value of HK\$472,186,000 and HK\$94,316,000 respectively.

The details of the corporate guarantee are set out in note 39 to the financial statements.

## 28. SHARE CAPITAL

	Number of shares		Share capital	
	2003	2002	2003 HK\$'000	2002 HK\$'000
Ordinary shares of HK\$0.01 each				
<i>Authorised:</i>				
At beginning of year	30,000,000,000	6,000,000,000	300,000	600,000
Capital reduction (note c)	(29,250,000,000)	–	(292,500)	(540,000)
Increase in authorised share capital (note d)	1,750,000,000	24,000,000,000	17,500	240,000
At end of year	<u>2,500,000,000</u>	<u>30,000,000,000</u>	<u>25,000</u>	<u>300,000</u>
<i>Issued and fully paid:</i>				
At beginning of year	3,632,245,567	3,632,245,567	36,322	363,225
Capital reduction	–	–	–	(326,903)
Rights issue – February 2003 (note b)	5,448,368,349	–	54,484	–
Share consolidation and reduction – April 2003 (note c)	(8,853,598,569)	–	(88,535)	–
Shares subscription (note e)	45,400,000	–	454	–
Rights issue – December 2003 (note f)	490,347,621	–	4,903	–
At end of year	<u>762,762,968</u>	<u>3,632,245,567</u>	<u>7,628</u>	<u>36,322</u>

### Notes:

- (a) During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.
- (b) Pursuant to an ordinary resolution passed on a special general meeting held on 10 February 2003, the Company issued 5,448,368,349 rights shares of HK\$0.01 each at HK\$0.02 per rights share in proportion of three rights shares for every two existing shares held.

**28. SHARE CAPITAL – continued**

*Notes: – continued*

- (c) Pursuant to the resolutions passed on a special general meeting held on 22 April 2003. The share capital of the Company was changed as follows:
- The ordinary shares of the Company in their consolidated form, every forty issued and unissued shares of HK\$0.01 each in the capital of the Company, were consolidated into one share of HK\$0.40 (“Consolidated Shares”) in the capital of the Company;
  - The authorised share capital of the Company was reduced from HK\$300,000,000 divided into 750,000,000 Consolidated Shares to HK\$7,500,000 divided into 750,000,000 ordinary shares of HK\$0.01 each and that such reduction was effected by (i) reducing the issued share capital of the Company from HK\$90,806,000 to HK\$2,270,000 by cancelling paid up share capital to the extent of HK\$0.39 on each Consolidated Shares in issue; and (ii) by reducing the nominal value of each issued and unissued Consolidated Shares from HK\$0.40 to HK\$0.01; and
  - The credit of HK\$88,535,000 arising from the reduction of issued capital of the Company was transferred to the contributed surplus.
- (d) Pursuant to an ordinary resolution passed at the special general meeting held on 4 December 2003, the authorised share capital of the Company was increased from HK\$7,500,000 to HK\$25,000,000 by the creation of an additional 1,750,000,000 ordinary shares of HK\$0.01 each.
- (e) Pursuant to a subscription agreement entered into between the Company and Sinolink on 26 September 2003, Sinolink subscribed 45,400,000 shares of the Company of HK\$0.01 each at a price of HK\$0.60 per share.
- (f) Pursuant to an ordinary resolution passed on a special general meeting held on 25 December 2003, the Company issued 490,347,621 rights shares of HK\$0.01 each at HK\$0.4 per rights share in proportion of nine rights shares for every five existing shares held.

**29. SHARE OPTION SCHEME**

The Company has a share option scheme (the “1993 Scheme”) under which the Board of Directors of the Company may, at its discretion, grant options to any eligible employees of the Group including directors of the Company or its subsidiaries, to subscribe for shares in the share capital of the Company at any time within ten years from 26 July 1993, the date of approval of the 1993 Scheme. The subscription price of the option granted under the 1993 Scheme is the higher of the nominal value of the shares and 80 per cent of the average of the closing price of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for the five trading days immediately preceding the date of the grant and option.

Pursuant to an ordinary resolution passed on the special general meeting held on 14 May 2002, the 1993 Scheme was terminated and a new share option scheme of the Company (the “2002 Scheme”) has been approved which will remain in force for a period of ten years. The board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the 2002 Scheme and the 1993 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company’s shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders.

A nominal consideration of HK\$1 is payable on the grant of an option. The exercise price is the higher of the closing price of the shares of the Company as stated on the Stock Exchange on the date of grant, the average of the closing prices of the share of the Company as stated on the Stock Exchange for the five business days immediately preceding the date of grant and the nominal value of the share of the Company.

## 29. SHARE OPTION SCHEME – *continued*

No options were granted under the 2002 Scheme during the year.

The following tables disclose details of the Company's share options held by employees (including directors) and movements in such holdings during the year:

Option scheme	Outstanding at 1.1.2003	Lapsed during year (Note 1)	Adjustment (Note 2)	Outstanding at 31.12.2003 (Note)
1993 Scheme	51,680,000	–	(42,636,000)	9,044,000

  

Option scheme	Outstanding at 1.1.2002	Lapsed during year	Adjustment	Outstanding at 31.12.2002 (Note)
1993 Scheme	208,000,000	(156,320,000)	–	51,680,000

Details of the share options under 1993 Scheme held by the directors included in the above table are as follows:

	Outstanding at 1 January	Lapsed during year (Note 1)	Adjustments (Note 2)	Outstanding at 31 December
Year 2003	50,000,000	–	(41,250,000)	8,750,000
Year 2002	200,000,000	(150,000,000)	–	50,000,000

Notes:

- (1) Lapsed arising on the resignation of employees (including directors) during the year.
- (2) As adjusted for rights issue and share consolidation during the year.

Details of specific categories of options are as follows:

Option scheme	Date of grant	Exercise period	Exercise price HK\$	Number of options	
				2003	2002
1993 Scheme	24.5.2000	24.5.2000 – 23.5.2010	1.66	8,750,000	50,000,000
	26.6.2000	26.6.2000 – 25.6.2010	2.23	175,000	1,000,000
	26.3.2001	26.3.2001 – 25.3.2011	1.20	119,000	680,000
				<u>9,044,000</u>	<u>51,680,000</u>

No consideration was received during both years as no option was granted under both schemes.

No charge has been recognised in the income statement as no option was granted during the year.

**30. RESERVES**

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>				
At 1 January 2002	388,075	43,852	(431,842)	85
Capital reduction	–	326,903	–	326,903
Net loss for the year	–	–	(103,534)	(103,534)
At 31 December 2002	388,075	370,755	(535,376)	223,454
Capital reduction	–	88,535	–	88,535
Premium on rights issues and share subscription	263,668	–	–	263,668
Utilisation of contribution surplus against accumulated losses	–	(415,438)	415,438	–
Net loss for the year	–	–	(3,766)	(3,766)
At 31 December 2003	<u>651,743</u>	<u>43,852</u>	<u>(123,704)</u>	<u>571,891</u>

The contributed surplus represents the difference between the value of net assets of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries in 1991 and the credits arising from the changes in the share capital of the Company.

Under the provisions of the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The accumulated profits (losses) of the Group include approximately HK\$25,065,000 (2002: HK\$25,065,000) attributable to the associates.

The Company did not have any distributable reserves as at 31 December 2003 and 2002.

### 31. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group.

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	–	–	–
Charge (credit) for the year	934	(934)	–
At 31 December 2002 and 1 January 2003	934	(934)	–
Charge (credit) for the year	559	(559)	–
<b>At 31 December 2003</b>	<b>1,493</b>	<b>(1,493)</b>	<b>–</b>

No provision for deferred taxation has been made in the financial statements in respect of the estimated tax losses of approximately HK\$19,406,000 (2002: HK\$65,955,000) available to offset the future assessable profit as it is not certain that the assessable profits will be available against which deductible temporary difference can be utilised.

### 32. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2002, the Group acquired the entire issued share capital of Sinolink Industrial Limited ("Sinolink Industrial") for a consideration of HK\$222,498,000. Sinolink Industrial is interested in 70% of the registered capital of Shenzhen Fuhuade Electric Power Co., Ltd. ("Fuhuade"), a sino-foreign equity joint venture company established in PRC, through a wholly owned subsidiary, Sinolink Electric Power Company Limited ("Sinolink Electric Power"). This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$223,628,000. In addition, a profit guarantee is provided by Sinolink as detailed in note 39(a).

	<i>2002 HK\$'000</i>
Net assets (liabilities) acquired:	
Property, plant and equipment	284,886
Interests in associates	564
Inventories	15,073
Debtors, deposits and prepayments	13,131
Bank balances and cash	83,479
Creditors and accrued charges	(27,195)
Loan from a minority shareholder of a subsidiary	(27,301)
Shareholders' loan	(137,902)
Taxation payables	(483)
Bank borrowings	(174,144)
Minority interests	(31,238)
	(1,130)
Goodwill	148,628
Total consideration	147,498

**32. ACQUISITION OF SUBSIDIARIES – *continued***

	2002 HK\$'000
Satisfied by:	
Cash paid	163,400
Deferred consideration (shareholder loan)	197,000
Debt assignment	(137,902)
Receivable in respect of adjustment to purchase consideration	(75,000)
	<u>147,498</u>
Net cash outflow arising on acquisition:	
Cash consideration	(163,400)
Bank balances and cash acquired	83,479
	<u>(79,921)</u>

The subsidiaries acquired during the year ended 31 December 2002 contributed HK\$114,792,000 to the Group's turnover and HK\$15,191,000 to the Group's loss from operations.

**33. DISPOSAL OF SUBSIDIARIES**

During the year ended 31 December 2002, certain associates and investment securities were disposed of through the sale of certain subsidiaries. The net assets in aggregate of those subsidiaries at the date of disposal are as follows:

	2002 HK\$'000
Net assets disposed of:	
Interests in associates	34,764
Investments in securities	7,000
Debtors, deposits and prepayments	18
Creditors and accrued charges	(1)
	<u>41,781</u>
Translation reserve released	18
Loss on disposal	(2,135)
	<u>39,664</u>
Net cash inflow arising on disposal:	
Cash consideration	39,679
Less: Deposit received in prior year	(13,531)
Less: Legal and professional fee	(15)
	<u>26,133</u>

The subsidiaries disposed of during the year ended 31 December 2002 contributed an insignificant amount to the Group's turnover and loss from operations.

**34. PLEDGE OF ASSETS**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
To secure the general banking facilities granted to the Group:		
Investment properties	–	–
Bank deposits	13,861	4,091
	<u>13,861</u>	<u>4,091</u>

The shares in Sinolink Industrial and Sinolink Electric Power are pledged to Sinolink to secure a loan from Sinolink of HK\$75,000,000 (2002: HK\$197,000,000).

Details of pledge of assets in respect of bank borrowings are set out in note 27 to the financial statements.

**35. CONTINGENT LIABILITIES***THE GROUP*

In August 2003, a supplier filed an application of arbitration against Fuhuade in respect of a claim for extra contract sum due to the additional work involved during the installation of the new generating units. The extra contract sum claimed, together with interest thereon, amounts approximately HK\$28,015,000. Fuhuade has instructed a firm of lawyers to act on its behalf in respect of the arbitration. In the opinion of the directors, as the arbitration is in progress and the outcome of this cannot be ascertained at this moment, no provision for the amount claimed has been made by the Group as at 31 December 2003.

**36. OPERATING LEASE ARRANGEMENT**

At the balance sheet date, the Group had no outstanding commitments under non-cancellable operating leases in respect of rented properties, which fall due as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	4,940	662
In the second to fifth year inclusive	9,861	–
	<u>14,801</u>	<u>662</u>

The Company did not have any lease commitments at 31 December 2003.

**37. CAPITAL COMMITMENTS**

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>353,118</u>	<u>13,900</u>
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	<u>—</u>	<u>85,915</u>

**38. RETIREMENT BENEFITS SCHEME**

In December 2000, the Group enrolled all eligible employees in a Mandatory Provident Fund (“MPF”) Scheme. The assets of the MPF Scheme are held separately from those of the Group under the control of trustees. The retirement benefit cost for the MPF charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the MPF Scheme.

**39. RELATED PARTY TRANSACTIONS**

Details of transactions with related parties for the year ended 31 December 2003 are as follows:

- (a) In relation to the acquisition of the entire issued share capital of Sinolink Industrial Limited from Sinolink on 8 March 2002, a profit guarantee was provided by Sinolink under the Acquisition Agreement that if the profits after taxation of Fuhuade arising from its ordinary activities and excluding any extraordinary item (i) for the two financial years ended 31 December 2003 in aggregate was less than RMB135,000,000; or (ii) for the year ended 31 December 2003 was less than RMB110,000,000 (each being the “Relevant Guaranteed Profit”), Sinolink should repay to the Company an amount equivalent to the shortfall between the Relevant Guaranteed Profits and the corresponding profit.

As at 31 December 2002, an estimated provision of HK\$75,000,000 was adjusted to the purchase consideration for the potential shortfall of the Relevant Guaranteed Profit.

The profits after taxation of Fuhuade arising from its ordinary activities and excluding any extraordinary item for the two financial years ended 31 December 2003 in aggregate have exceeded RMB135,000,000 and accordingly the adjustment to the purchase consideration of HK\$75,000,000 was reversed in the current year.

- (b) During the year, the Group paid interest expenses of approximately HK\$4,456,000 (2002: HK\$3,886,000) to Sinolink in respect of a shareholder loan. The balance of the loan remains payable on demand and carries interest at the rate of 3% per annum payable semi-annually.
- (c) During the year ended 31 December 2003, the Group received management fee income of HK\$5,540,000 from eGoChina Holdings Limited (“eGoChina”), an associate of the Group. The investment in eGoChina was fully impaired in previous year. The management fee is determined with reference to actual cost.
- (d) On 6 March 2003, Fuhuade entered into a loan agreement with a bank for an amount up to US\$25,000,000. The loan is repayable over a term of three years (“Term”). The Company provided a guarantee of 70% of the loan, amounting US\$17,500,000. The remaining 30% is guaranteed by Shenzhen Sinolink. The guarantee is for the period of the Term plus two years thereafter.

The loan was replaced by another loan facility for an amount up to US\$26,000,000 on 30 December 2003. The new loan facility was secured by the property, plant and equipment of Fuhuade. The abovementioned corporate guarantee was cancelled accordingly.

**39. RELATED PARTY TRANSACTIONS – continued**

- (e) On 29 July 2003, Fuhuade entered into a loan agreement with a bank for an amount of RMB100,000,000. The loan is repayable over a term of three years (“New Term”). The Company provided a guarantee of 70% of the loan. The remaining 30% is guaranteed by Shenzhen Sinolink. The guarantee is for the period of the New Term plus two years thereafter.

The loan was replaced by another loan facility for an amount up to RMB300,000,000 on 29 October 2003. The abovementioned corporate guarantee was cancelled accordingly.

Details of balances with related parties and other transactions with related parties are also set out in other notes to the financial statements.

- (f) During the year ended 31 December 2003, the Group paid office expenses of approximately HK\$788,000 (2002: HK\$Nil) to Sinolink. The office expense is determined with reference to actual costs incurred.

**40. POST BALANCE SHEET EVENTS**

Pursuant to a resolution passed at a special general meeting held on 30 March 2004. The Company issued 1,525,525,936 offer shares of HK\$0.01 each at the price of HK\$0.4 per offer share on the basis of two offer shares for every existing share held.

**41. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES**

- a. *Details of the Company’s principal subsidiaries as at 31 December 2003 are as follows:*

Name of subsidiary	Place of incorporation/ operation	Type of company	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
Alyo Limited	Hong Kong	Limited liability company	HK\$2	–	100	Property investment
Eastern Pith Investment Limited	Hong Kong	Limited liability company	HK\$100	–	100	Property investment
Hanka Limited	Hong Kong	Limited liability company	HK\$2	–	100	Holding of club membership
Peaceway Investment Limited	Hong Kong	Limited liability company	HK\$100	–	100	Property investment
Enerchina Resources Limited	Hong Kong	Limited liability company	HK\$2	100	–	Provision of management services
Sinolike Investment Limited	Hong Kong	Limited liability company	HK\$2	–	100	Property investment
Xeno International Limited	Hong Kong	Limited liability company	HK\$2	–	100	Property investment

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES – *continued*

Name of subsidiary	Place of incorporation/ operation	Type of company	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
New China Control Systems Limited	BVI	Limited liability company	US\$1	100	–	Investment holding
Rado International Limited	BVI	Limited liability company	US\$1	100	–	Investment holding
Sinolink Industrial Limited	BVI	Limited liability company	US\$50,001	100	–	Investment holding
Sinolink Electric Power Company Limited	Hong Kong	Limited liability company	HK\$2 ordinary shares and \$100,000 non-voting deferred shares	–	100	Investment holding
Shenzhen Fuhuade Electric Power Company Limited	PRC	Sino-foreign equity joint venture	RMB100,000,000	–	70	Electricity supplies

b. *Details of the Group's principal associate as at 31 December 2003 is as follows:*

Name of Company	Place of incorporation/ registration	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Group	Principal activities
eGoChina Holdings Limited	Cayman Island	52%	Investment holding

None of the subsidiaries had any loan capital outstanding at the end of the year, or at any time during the year.

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