



WING SHAN INTERNATIONAL LIMITED
榮山國際有限公司

2004

Interim Report

COMPANY INFORMATION

Board of Directors	<i>Executive Directors</i> HE Haochang (<i>Chairman & Managing Director</i>) CHAN Che Kan, Edward (<i>Deputy Managing Director</i>) SITU Min (<i>Chief Financial Officer</i>) LI Feng
	<i>Independent Non-executive Directors</i> CHAN Ting Chuen, David NG Pui Cheung, Joseph CHEUNG Kin Piu, Valiant
Company Secretary	HUEN Po Wah
Audit Committee	CHAN Ting Chuen, David (<i>Chairman</i>) NG Pui Cheung, Joseph CHEUNG Kin Piu, Valiant
Registered Office	Rooms 2801-2805, China Insurance Group Building 141 Des Voeux Road Central Hong Kong
Auditors	KPMG Certified Public Accountants Hong Kong
Registrars and Transfer Office	Computershare Hong Kong Investor Services Limited 46th Floor, Hopewell Centre 183 Queen's Road East Hong Kong
Principal Bankers	Bank of China (Hong Kong) Limited The Hongkong & Shanghai Banking Corporation Limited
Website	http://www.wingshan.com.hk

Dear Shareholders,

The board of directors (the "Board") of Wing Shan International Limited (the "Company") (together with its subsidiaries known as the "Group") would like to report the unaudited consolidated interim results of the Group for the six months ended 30 June 2004 as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Review

The Group's turnover increased by 31.7% to HK\$370.4 million (six months ended 30 June 2003: HK\$281.3 million) which included additional fuel cost surcharge of HK\$12.3 million (six months ended 30 June 2003: HK\$ Nil). The turnover growth mainly resulted from the increase of electricity sales volume during the period. The Group's cost of sales also increased by 30.9% to HK\$362.5 million (six months ended 30 June 2003: HK\$277.0 million), primarily reflecting the increase in fuel oil cost during the period. Gross profit margin was increased slightly to 2.1% (six months ended 30 June 2003: 1.5%). Loss from operations reduced from the previous HK\$21.7 million to HK\$18.5 million. Coupled with the 19.7% fall of finance costs from the previous HK\$13.9 million to HK\$11.1 million, loss attributable to shareholders for the period reduced to HK\$26.1 million (six months ended 30 June 2003: HK\$29.5 million) and loss per share was 3.1 (six months ended 30 June 2003: 3.6) Hong Kong cents.

Operation Review

Electricity Sales

Foshan Municipality continued to experience electricity short supply during peak demand periods. Major power plant operators in the locality including Foshan Shakou Power Plant Co., Ltd. ("Shakou JV") were requested to operate at maximum capacity during peak demand periods in order to improve the tight power supply situation. During the period, the Group increased its electricity sales volume markedly by 27.3% to approximately 757.6 million kilowatts-hours ("kwh") (six months ended 30 June 2003: 595.2 million kwh). The average plant utilization rate of Shakou Power Plant improved from the previous 45.4% to 57.8%. Shakou JV continued its maintenance and repairs programs to ensure optimal operational condition. During the period, no significant mechanical failure or serious breakdown occurred and safety production at optimal capacity utilization was achieved.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Operation Review (Continued)

Fuel Oil Prices

During the period, fuel oil prices continued to fluctuate and hike caused by the international oil prices movement. The weighted average cost of heavy oil consumed by Shakou JV for the period increased by 6.0% to Renminbi 1,919 per tonne (six months ended 30 June 2003: Renminbi 1,810 per tonne). Shakou JV continued its effort to liaise with the relevant People's Republic of China parties ("PRC parties") in respect of securing additional fuel cost surcharge. Additional fuel cost surcharge in respect of the fourth quarter of 2003 of HK\$12.3 million was finalized during 2004 and accordingly, included in the turnover in the financial statements of this interim financial report.

Facility Lease Agreement

On 30 July 2004, Shakou JV and Funeng Power Supply Co. Ltd. ("Funeng JV"), a Sino-foreign equity joint-venture established in the People's Republic of China ("PRC"), entered into the Facilities Lease Agreement, pursuant to which Funeng JV agreed to lease from Shakou JV certain assets (including office premises, factory premises, land-use rights and auxiliary power generation facilities) for two years commencing from the date of the Facilities Lease Agreement. The consideration is to be satisfied in cash by two annual payments of RMB4.8 million (equivalent to approximately HK\$4.5 million) each. As Foshan City District Electric Power Construction Corporation ("Power Construction Corporation"), a wholly-owned subsidiary of Foshan City Electric Power Construction Group Corporation ("Power Group Corporation"), is a substantial shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") ("the Listing Rules") of Shakou JV, it is a connected person of the Company within the meaning of the Listing Rules. Funeng JV, being a subsidiary of Power Group Corporation, is an associate (as defined in the Listing Rules) of Power Construction Corporation by virtue of its being a fellow subsidiary of Power Construction Corporation and thus the entering into of the Facilities Lease Agreement between Shakou JV and Funeng JV constituted a connected transaction of the Company and the transactions arising therefrom constituted continuing connected transactions under Chapter 14A of the Listing Rules. Details of the transaction have already been disclosed by a press announcement dated 2 August 2004.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review

Liquidity and Financial Resources

As at 30 June 2004, the Group's outstanding cash and cash equivalents decreased to HK\$110.1 million (31 December 2003: HK\$220.3 million). Current ratio (current assets as a percentage of current liabilities) was 1.36 (31 December 2003: 1.18) and net working capital surplus amounted to HK\$70.9 million (31 December 2003: HK\$44.4 million). During the period, the Group had net cash outflow from operating activities of HK\$37.5 million (six months ended 30 June 2003: inflow of HK\$23.6 million). At the same time, the Group repaid unsecured debts due for settlement in next 12 months of total amount of HK\$50.5 million (six months ended 30 June 2003: HK\$ Nil) which were largely refinanced by the proceeds from a new bank loan of HK\$46.8 million (six months ended 30 June 2003: HK\$ Nil), in light of the more favourable bank loan interest rate made available of 4.779% versus the unsecured loans interest rate of 5.76%. As at 30 June 2004, the Group's outstanding total debts (short-term and long-term interest bearing borrowings) decreased to HK\$414.4 million (31 December 2003: HK\$455.4 million) and the total debts to total assets ratio was 0.19 (31 December 2003: 0.20).

Capital Structure

The Group's capital structure comprised a mix of shareholders' fund and long-term debts that were endeavored to maximize value to the Company's shareholders. As at 30 June 2004, the Group's shareholders' fund decreased 2.7% to HK\$1.42 billion (31 December 2003: HK\$1.46 billion) primarily due to the loss attributable to shareholders for the period. The Group's total long-term debts (including their current portions) amounted to HK\$367.6 million (31 December 2003: HK\$404.9 million) which comprised: (1) the aggregate outstanding balance of the unsecured long-term Renminbi loans due to Shakou JV's PRC joint-venture partner and its associate of HK\$289.0 million (31 December 2003: HK\$376.8 million); and (2) Renminbi term loans due to banks in the PRC of HK\$78.6 million (31 December 2003: HK\$28.1 million). Gearing ratio, being the aggregate amount of bank loans and other loans (including current portion) as a percentage of shareholders' fund decreased to 29.1% (31 December 2003: 31.2%).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Outlook

It was expected that Foshan Municipality's strong electricity demand would persist in the foreseeable future. Barring unforeseen circumstances, the Company's directors are confident that the Group would achieve overall turnover growth for the full year. However, fuel oil prices would continue to hover at the recent high levels in the short term and the Group's operating profits would still be affected by the increased fuel oil cost caused by international oil price movements. Shakou JV was informed that the relevant PRC parties would continue to consider granting additional fuel cost surcharges to some major oil-fired power plants operating in the province to compensate part of the increased fuel cost incurred by them as a result of the recent rising fuel oil prices. While the Group would continue to strive for overall production efficiency improvement and cost effectiveness enhancement, it would endeavor its best effort to liaise with the relevant PRC parties for additional fuel cost surcharges for the full year to offset the adverse impact of the increased fuel oil cost on the Group's operating results. The directors believe that the Group's performance for the full year will improve.

Retirement of Director

Mr. LAM Siu Hung retired on 21 May 2004 as a non-executive director of the Company. The Board would like to thank Mr. LAM for his valuable contributions to the Company.

Other information

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

OTHER DISCLOSURES

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (six months ended 30 June 2003: Nil).

OTHER DISCLOSURES (Continued)

Disclosure of Interests

Directors' and Chief Executives' Interests

As at 30 June 2004, the interests or short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register which were required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:—

Long Positions in shares and underlying shares of the Company:

Name of Directors	Number of Ordinary Shares			Total Interests	Approximate Percentage of Total Interests to Issued Share Capital (%)
	Personal Interests (held as beneficial owner)	Corporate Interests (interests of controlled corporation)	Underlying Shares pursuant to Share Options (Note 2)		
HE Haochang	—	6,117,079 (Note 1)	4,200,000	10,317,079	1.24
CHAN Che Kan, Edward	205,034	—	3,900,000	4,105,034	0.49
SITU Min	—	—	3,800,000	3,800,000	0.46
LI Feng	—	—	1,500,000	1,500,000	0.18
CHAN Ting Chuen, David	828,000	—	—	828,000	0.10
NG Pui Cheung, Joseph	—	—	828,000	828,000	0.10

Notes:—

- These shares were held by Main Fortune International Limited which is 50% owned by Mr. HE Haochang.
- These represents interests of options granted to the directors under the Share Option Scheme to acquire for shares of the Company, further details of which are set out hereinafter.

Other than as disclosed above, none of the directors and chief executive of the Company had any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model

OTHER DISCLOSURES (Continued)

Directors' and Chief Executives' Interests (Continued)

Code for Securities Transactions by Directors of Listed Company. None of directors or their spouses or children under the age of 18, had been granted any right to subscribe for the equity or debt securities of the Company or any of its associated corporations, or had exercised any such right during the period.

Substantial Shareholders' Interests

At 30 June 2004, the interests and short positions of the shareholders, other than a director or chief executive of Company, in the shares and underlying shares of the Company as recorded in the register which were required to be kept by the Company under Section 336 of SFO were as follows:

Long Positions in shares of the Company:

Name	Number of Ordinary Shares				Percentage of Issued Capital (%)
	Personal Interest	Corporate Interest	Family Interest	Other Interest	
Hensil Investments Group Limited	—	315,000,000 (Note 1)	—	—	37.96
Foshan Development Company Limited	—	315,000,000 (Note 1)	—	—	37.96
YIP Siu Chun	290,196,037 (Note 2)	—	—	—	34.96
Oakwood Enterprise Limited	—	—	—	290,196,037 (Note 2)	34.96
KWAN Tik Hoi	—	—	290,196,037 (Note 2)	—	34.96

Notes:

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

OTHER DISCLOSURES (Continued)

Substantial Shareholders' Interests (Continued)

Save as disclosed above, the register required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 30 June 2004.

Share Option Scheme

The Company adopted a share option scheme (the "Scheme") dated 22 May 2002 for any eligible employee or director of any member of the Group, details of the Scheme have been disclosed in the Company's most recent published annual report. Disclosures in respect of the share options granted, exercised, lapsed and cancelled during the period are listed as follow:

Options to subscribe for ordinary shares granted under the Company's share option scheme

As at 30 June 2004, the following directors had personal interests in the share options to subscribe for the shares of the Company:

Name of Directors/ chief executive	No. of options outstanding as at 01/01/2004	Date granted (DD/MM/YY)	Period during which options exercisable (DD/MM/YY-DD/MM/YY)	Market value per share at date of exercise of options (HK\$)	Exercise price per share (HK\$)	Options exercised during the period	Market value per share at date of grant of options (HK\$)	No. of options outstanding as at 30/06/2004
HE Haochang	4,200,000	30/07/02	30/01/03-29/01/08	-	0.35	-	0.33	4,200,000
CHAN Che Kan, Edward	3,900,000	30/07/02	30/01/03-29/01/08	-	0.35	-	0.33	3,900,000
SITU Min	3,800,000	30/07/02	30/01/03-29/01/08	-	0.35	-	0.33	3,800,000
LI Feng	1,500,000	22/05/03	22/11/03-21/11/08	-	0.415	-	0.395	1,500,000
CHAN Ting Chuen, David*	828,000	29/07/02	29/01/03-28/01/08	0.435	0.35	828,000	0.34	-
NG Pui Cheung, Joseph*	828,000	25/07/02	25/01/03-24/01/08	-	0.35	-	0.345	828,000
Former employee working under continuous contract	300,000	29/07/02	29/01/03-28/01/08	0.519	0.35	300,000	0.34	-
Total	15,556,000					1,128,000		14,228,000

* *Independent non-executive director*

OTHER DISCLOSURES (Continued)

Share Option Scheme (Continued)

Options to subscribe for ordinary shares granted under the Company's share option scheme (Continued)

Notes:

1. During the period, a total of 1,128,000 share options were exercised. Out of which, a total of 300,000 share options were exercised at an exercise price of HK\$0.35 per share by a former employee working under continuous contract and a total of 828,000 share options were exercised at an exercise price of HK\$0.35 per share by Mr. CHAN Ting Chuen, David, an independent non-executive director of the Company, in accordance with the Scheme and the relevant offer letters of the Company.
2. The prices of the Company's shares disclosed as at the date of the exercise of the share options were the weighted average of the Stock Exchange closing prices of the Company's shares immediately before the dates on which the share options were exercised.
3. The vesting periods of the options are from the date of the options granted until the commencement of the exercise period.
4. The above options granted are not recognized in the accounts until they are exercised. The directors consider it is inappropriate to value the options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the options based on various speculative assumptions would be meaningless and could be misleading to shareholders. The directors therefore consider the disclosure of only the relevant market price and exercise price which are readily ascertainable, will be appropriate.
5. Market value is the closing price at date preceding the date of options granted.
6. No share option has been granted, cancelled, or lapsed during the period.

Apart from the foregoing, at no time during the period was the Company or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Review of Interim Financial Report

The unaudited interim financial report have been reviewed by the Company's auditors, KPMG, and a review report has been received by the Board, as listed out on page 24.

OTHER DISCLOSURES (Continued)

Audit Committee

The Company's audit committee has reviewed and discussed with the Company's management the interim report, internal control and financial reporting matters. The audit committee has also discussed with the Company's auditors, KPMG, the unaudited consolidated interim financial report for the six months ended 30 June 2004.

Code of Best Practice

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

10

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

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

By order of the Board

HE Haochang

Chairman & Managing Director

Hong Kong, 16 September 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Six Months Ended 30 June 2004 – Unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2004	2003
		\$'000	\$'000
	Note		
Turnover	2	370,415	281,329
Cost of sales		(362,456)	(276,993)
Gross profit		7,959	4,336
Interest income		939	1,127
Other net income		120	125
Administrative expenses		(11,740)	(11,466)
Goodwill amortization		(15,811)	(15,811)
Loss from operations		(18,533)	(21,689)
Finance costs	4	(11,122)	(13,851)
Loss from Ordinary Activities Before Taxation	4	(29,655)	(35,540)
Taxation	5	1,767	3,394
Loss from Ordinary Activities After Taxation		(27,888)	(32,146)
Minority interests		1,825	2,680
Loss Attributable to Shareholders		(26,063)	(29,466)
Dividends Attributable to the Previous Financial Year, Approved and Paid During the Period	6		
Final dividend in respect of the previous financial year, approved and paid during the period, of 1.5 (2003: 1.8) Hong Kong cents per share		12,452	14,922
Loss per Share	7		
– Basic		3.1 cents	3.6 cents
– Diluted		N/A	N/A

The notes on pages 15 to 23 form part of this interim report.

CONSOLIDATED BALANCE SHEET

At 30 June 2004 – Unaudited

(Expressed in Hong Kong dollars)

	Note	30 June 2004 \$'000	31 December 2003 \$'000
Non-Current Assets			
Fixed assets		1,300,135	1,348,915
Goodwill		594,129	609,940
Deferred taxation	9(b)	7,170	5,215
		1,901,434	1,964,070
Current Assets			
Consumables		20,675	18,547
Trade and other receivables	10	135,716	56,805
Tax recoverable	9(a)	25	–
Cash and cash equivalents		110,064	220,263
		266,480	295,615
Current Liabilities			
Trade and other payables	11	124,958	122,955
Provision for staff welfare		1,856	6,365
Bank loans	12	46,790	50,533
Current portion of other loans		21,976	65,296
Taxation		–	6,062
		195,580	251,211
Net Current Assets		70,900	44,404
Total Assets Less Current Liabilities		1,972,334	2,008,474
Non-Current Liabilities			
Bank loans	12	78,607	28,074
Other loans		267,059	311,534
		345,666	339,608
Minority Interests		204,339	208,417
Net Assets		1,422,329	1,460,449
Share Capital and Reserves			
Share capital	13	83,015	82,902
Reserves		1,339,314	1,377,547
		1,422,329	1,460,449

The notes on pages 15 to 23 form part of this interim report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the Six Months Ended 30 June 2004 – Unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Net Cash (used in)/from Operating Activities	(37,543)	23,579
Net Cash from/(used in) Investing Activities	645	(2,034)
Net Cash used in Financing Activities	(73,301)	(75,650)
Decrease in Cash and Cash Equivalents	(110,199)	(54,105)
Cash and Cash Equivalents at the Beginning of the Period	220,263	167,937
Cash and Cash Equivalents at the End of the Period	110,064	113,832
Analysis of Balances of Cash and Cash Equivalents		
Deposits with banks	10,814	9,000
Cash at bank and in hand	99,250	104,832
	110,064	113,832

The notes on pages 15 to 23 form part of this interim report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 June 2004 – Unaudited

(Expressed in Hong Kong dollars)

	Share capital	Share premium	Capital redemption reserve	Reserve fund	Enterprise development fund	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2003	82,902	1,041,444	297	22,551	22,551	323,197	1,492,942
Loss for the period	-	-	-	-	-	(29,466)	(29,466)
Dividends (Note 6)	-	-	-	-	-	(14,922)	(14,922)
At 30 June 2003	<u>82,902</u>	<u>1,041,444</u>	<u>297</u>	<u>22,551</u>	<u>22,551</u>	<u>278,809</u>	<u>1,448,554</u>
At 1 January 2004	82,902	1,041,444	297	23,481	23,481	288,844	1,460,449
Shares issued under shares option scheme	113	282	-	-	-	-	395
Loss for the period	-	-	-	-	-	(26,063)	(26,063)
Dividends (Note 6)	-	-	-	-	-	(12,452)	(12,452)
At 30 June 2004	<u>83,015</u>	<u>1,041,726</u>	<u>297</u>	<u>23,481</u>	<u>23,481</u>	<u>250,329</u>	<u>1,422,329</u>

The notes on pages 15 to 23 form part of this interim report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1. Basis of Preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). KPMG's independent review report to the Board of Directors is included on page 24.

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

The financial information relating to the financial year ended 31 December 2003 included in the interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2003 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 15 April 2004.

The same accounting policies adopted in the 2003 annual accounts have been applied to the interim financial report.

2. Turnover

The principal activity of the Group is the generation and sale of electricity. Turnover represents the invoiced value, net of value added tax, of electricity supplied in Foshan City, Guangdong Province, the People's Republic of China ("PRC") and additional fuel cost surcharges of \$12.3 million (six months ended 30 June 2003: Nil) for electricity supplied, representing an adjustment for tariff of electricity supplied.

3. Segment Reporting

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

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

4. Loss from Ordinary Activities Before Taxation

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

	Six months ended 30 June	
	2004 \$'000	2003 \$'000
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	11,122	13,851
(b) Other items		
Depreciation and amortization (other than for goodwill)	49,090	43,066

5. Income Tax in Consolidated Profit and Loss Account

Taxation in the consolidated profit and loss account represents:

	Six months ended 30 June	
	2004 \$'000	2003 \$'000
Current Tax – PRC enterprise income tax		
Under-provision in respect of prior year	188	42
Deferred Tax		
Origination and reversal of temporary differences (Note 9 (b))	(1,955)	(3,436)
Total income tax credit	(1,767)	(3,394)

No provision has been made for Hong Kong Profits Tax as the Group sustained losses in Hong Kong for taxation purposes during the period. No provision for PRC enterprise income tax has been made during the period as the Company's subsidiary, 佛山市沙口發電廠有限公司 (Foshan Shakou Power Plant Co., Ltd.) ("Shakou JV"), sustained a loss for taxation purposes.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

6. Dividends

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Final dividend in respect of the previous financial year, approved and paid during the period, of 1.5 (six months ended 30 June 2003: 1.8) Hong Kong cents per share	12,452	14,922

7. Loss Per Share

The calculation of basic loss per share is based on the loss attributable to shareholders for the six months ended 30 June 2004 of \$26,063,000 (six months ended 30 June 2003: \$29,466,000) and on the weighted average number of shares in issue during the six months ended 30 June 2004 of 829,617,321 (six months ended 30 June 2003: 829,018,244).

The diluted loss per share for the six months ended 30 June 2003 and 2004 is not shown as all potential ordinary shares are anti-dilutive.

8. Material Related Party Transactions

		Six months ended 30 June	
		2004	2003
		\$'000	\$'000
Name of related company	Nature of transaction		
Foshan City District Electricity Fuel Supply Company	Purchase of fuel (Note)	291,269	214,681
Foshan City District Electric Power Construction Corporation and its associate	Interest on loans	9,235	11,930

Note: The value is exclusive of value added tax.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

8. Material Related Party Transactions (Continued)

During the period, the Group purchased fuel from 佛山市區電力燃料公司 (Foshan City District Electricity Fuel Supply Company) ("Fuel Company"). As at 30 June 2004, amount due to Fuel Company was \$100.15 million (31 December 2003: \$87.3 million). The Fuel Company, being a fellow subsidiary of 佛山市區電力建設總公司 (Foshan City District Electric Power Construction Corporation) ("Power Construction Corporation"), is a related party to the Company because Power Construction Corporation is a substantial shareholder of Shakou JV.

During the period, Shakou JV had outstanding loans due to Power Construction Corporation and its associate pursuant to certain loan agreements entered into between Shakou JV and the respective counter parties. As at 30 June 2004, the outstanding loans amounted to approximately \$289.04 million (31 December 2003: \$376.83 million including an overdue amount of \$42.23 million). There was no overdue loan as at 30 June 2004. As at 30 June 2004, the loans are interest-bearing at a fixed rate of 5.76% per annum (31 December 2003: 5.76% per annum).

As at 30 June 2004, there was overdue interest payable to these parties amounting to \$8.97 million (31 December 2003: \$15.5 million), which is interest-free.

According to the loan agreements, overdue interest payable is subject to an interest penalty at a rate of 0.03% per day. No provision for these interest penalties has been made for the period ended 30 June 2004 as the lenders have subsequently waived the interest penalties on all interest payable as in previous years.

9. Income Tax in the Balance Sheet

(a) Current taxation in the consolidated balance sheet represents:

	30 June 2004 \$'000	31 December 2003 \$'000
Provision for PRC enterprise income tax for the period/year	-	6,064
Amount paid during the period/year	<u>(25)</u>	<u>(2)</u>
Tax (recoverable)/payable	<u>(25)</u>	<u>6,062</u>

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

9. Income Tax in the Balance Sheet (Continued)

(b) Deferred tax assets recognized

The components of deferred tax assets recognized in the consolidated balance sheet and the movements during the period/year are as follows:

Deferred tax arising from:

	Tax losses	Depreciation in excess of related depreciation allowances	Total
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
At 1 January 2003	–	4,492	4,492
Credited to consolidated profit and loss account	–	723	723
	<hr/>	<hr/>	<hr/>
At 31 December 2003	–	5,215	5,215
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 1 January 2004	–	5,215	5,215
Credited to consolidated profit and loss account	824	1,131	1,955
	<hr/>	<hr/>	<hr/>
At 30 June 2004	824	6,346	7,170
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

- (c) Deferred tax assets have not been recognized in respect of tax losses of \$17,408,000 (31 December 2003: \$17,277,000) of a subsidiary in Hong Kong as it is not probable that future taxable profits will be available against which the assets can be utilized.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

10. Trade and Other Receivables

	30 June 2004 \$'000	31 December 2003 \$'000
Trade receivables	132,485	54,566
Other receivables	3,231	2,239
	<u>135,716</u>	<u>56,805</u>

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

	30 June 2004 \$'000	31 December 2003 \$'000
Current	93,941	54,566
1 to 3 months overdue	38,544	—
	<u>132,485</u>	<u>54,566</u>

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

11. Trade and Other Payables

	30 June 2004 \$'000	31 December 2003 \$'000
Creditors and accrued charges	15,836	20,152
Amounts due to related companies	109,122	102,803
	<u>124,958</u>	<u>122,955</u>

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

	30 June 2004 \$'000	31 December 2003 \$'000
Due within 1 month or on demand	100,149	87,256

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

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

12. Bank Loans – Secured

At 30 June 2004, the Group's bank loans were repayable as follows:

	30 June 2004 \$'000	31 December 2003 \$'000
Within one year or on demand	46,790	50,533
After 2 years but within 5 years	78,607	28,074
	125,397	78,607

The banking facilities of the PRC subsidiary are secured by charges over its power generating facilities with an aggregate carrying value of \$1,161,680,000 (31 December 2003: \$1,205,387,000). Such banking facilities amount to \$196,519,000 (31 December 2003: \$196,519,000), out of which \$125,397,000 (31 December 2003: \$78,607,000) were drawn down at 30 June 2004. The bank loans bear interest rates ranging from 4.779% to 4.941% per annum as at 30 June 2004 (31 December 2003: from 4.536% to 4.941% per annum).

13. Share Capital

	30 June 2004		31 December 2003	
	Number of shares '000	Nominal value \$'000	Number of shares '000	Nominal value \$'000
Authorized:				
Shares of \$0.10 each	1,100,000	110,000	1,100,000	110,000
Issued and fully paid:				
At 1 January	829,018	82,902	829,018	82,902
Shares issued under share option scheme	1,128	113	–	–
At 30 June 2004	830,146	83,015	829,018	82,902

On 2 January, 6 January and 22 April 2004, options were exercised to subscribe for 60,000, 240,000 and 828,000 shares respectively in the Company at a total consideration of \$395,000 of which \$113,000 was credited to share capital and the balance of \$282,000 was credited to the share premium account (see note 14).

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

14. Equity Compensation Benefits

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

(a) Movement in share options

	2004 '000	2003 '000
At 1 January	15,356	18,484
Issued	–	1,500
Exercised	(1,128)	–
Lapsed and cancelled	–	(4,628)
	<hr/> 14,228 <hr/>	<hr/> 15,356 <hr/>
At 30 June /31 December	14,228	15,356
Options vested at 30 June/31 December	14,228	15,356

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

Date granted	Exercise period	Exercise price	30 June 2004 '000	31 December 2003 '000
25 July 2002	25 January 2003 to 24 January 2008	\$0.35	828	828
29 July 2002	29 January 2003 to 28 January 2008	\$0.35	–	1,128
30 July 2002	30 January 2003 to 29 January 2008	\$0.35	11,900	11,900
22 May 2003	22 November 2003 to 21 November 2008	\$0.415	1,500	1,500
			<hr/> 14,228 <hr/>	<hr/> 15,356 <hr/>

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

14. Equity Compensation Benefits (Continued)

(c) Details of share options exercised during the period

Exercised date	Exercise price	Market value per share at exercise date	Proceed received	Number
			\$'000	'000
2 January 2004	\$0.35	\$0.50	21	60
6 January 2004	\$0.35	\$0.50	84	240
22 April 2004	\$0.35	\$0.445	290	828
			<u>395</u>	<u>1,128</u>

15. Contingent Liabilities

Shakou JV had a syndicated loan denominated in US dollar which was fully repaid on 23 March 1998. Under the loan agreement, Shakou JV is required to bear any PRC tax payable in respect of interest paid to the lenders. By a letter dated 17 March 1998, the Shakou JV's former ultimate holding company, Foshan Development Company Limited, agreed to bear any tax liabilities, including penalties, if any, which may arise from the interest paid on the syndicated loan. The estimated tax which may be payable is approximately \$43 million, excluding penalties.

16. Post Balance Sheet Events

Subsequent to 30 June 2004, Shakou JV entered into a facilities lease agreement with Funeng Power Supply Co., Ltd. ("Funeng JV"). Funeng JV, being a fellow subsidiary of Power Construction Corporation, is a related party to the Company because Power Construction Corporation is a substantial shareholder of Shakou JV. Pursuant to the facilities lease agreement, Shakou JV agreed to lease to Funeng JV certain assets (including office premises, factory premises, land use rights and auxiliary power generation facilities) for two years commencing from the date of the agreement and Shakou JV will receive annual rental payments of approximately \$4.49 million (Rmb: 4.80 million) for each of the two years.

17. Approval of the Interim Financial Report

The interim financial report was approved by the Board of Directors on 16 September 2004.

INDEPENDENT REVIEW REPORT

To the board of directors of Wing Shan International Limited

Introduction

We have been instructed by the company to review the interim financial report set out on pages 11 to 23.

Respective responsibilities of directors and auditors

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

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

Review work performed

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

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2004.

KPMG

Certified Public Accountants

Hong Kong, 16 September 2004

Wing Shan International Limited