



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 2004 to be China Resources National Corporation ("CRNC"), a company established in the People's Republic of China (the "PRC").

The Company is an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entity are set out in notes 13, 14 and 15, respectively.

The Company had undertaken a group reorganisation for the preparation of the Company's shares to list on The Stock Exchange (the "Group Reorganisation") in 2003. Details of the Group Reorganisation are set out in the section headed "Business Reorganisation" 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:

Potential impact arising from the recently issued accounting standards

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2004



2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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.



2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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 loss is 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.



2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 taxable 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.

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.



2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Foreign currency translation

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

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 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 foreign 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 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

Nearly all of the Group's assets and liabilities are located in the PRC, other than Hong Kong, and operations for the year were substantially made in the PRC, other than Hong Kong. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2004



5. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration		
- Fees	588	137
- Other emoluments	5,531	1,474
Other staff costs	6,119	1,611
Pension costs, excluding directors	82,385	36,830
	9,995	3,687
Total staff costs	98,499	42,128
Less: Staff costs included in pre-operating expenses of subsidiaries	(3,862)	(5,024)
	94,637	37,104
Amortisation of goodwill of subsidiaries (included in other operating expenses)	5,869	5,869
Auditors' remuneration	2,056	2,143
Depreciation	187,828	39,382
Minimum lease payments under operating leases in respect of:		
- land and buildings	1,264	1,249
- other assets	129	—
Write-off of pre-operating expenses of subsidiaries	25,512	18,925
and after crediting:		
Release of negative goodwill of subsidiaries	1,352	—
Interest income	20,635	1,548
Expenses capitalised in construction in progress:		
Other staff costs	42,243	38,756
Pension costs	734	914
Depreciation	2,945	2,280
Minimum lease payments under operating leases in respect of:		
- land and buildings	411	167
- other assets	12	128



6. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank and other loans:		
- wholly repayable within five years	128,650	55,244
- not wholly repayable within five years	206,327	68,793
	334,977	124,037
Less: Interest capitalised	(211,895)	(89,549)
	123,082	34,488

7. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
The Company and its subsidiaries		
- PRC Enterprise Income Tax	—	—
- Deferred taxation (note 29)	378	919
Taxation attributable to the Company and its subsidiaries	378	919
Share of taxation attributable to associates		
- PRC Enterprise Income Tax	123,126	114,783
- Deferred taxation	22,994	20,970
	146,120	135,753
Share of taxation attributable to jointly controlled entity		
- PRC Enterprise Income Tax	110,732	25,158
- Deferred taxation	10,158	1,976
	120,890	27,134
	267,388	163,806

No provision for Hong Kong Profits Tax has been made as the Group incurred taxable loss in Hong Kong for the year.

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.

Pursuant to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. No provision for PRC Enterprises Income Tax has been made in the financial statements as all of the PRC subsidiaries were exempted from PRC Enterprises Income Tax during the year.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2004

7. TAXATION (CONT'D)

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

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	1,872,318	870,260
Less: Share of results of associates	(1,103,912)	(733,858)
Share of result of jointly controlled entity	(370,806)	(92,525)
Profit before taxation attributable to the Company and its subsidiaries	397,600	43,877
Tax at applicable rate of 18% (2003: 18%)	71,568	7,898
Tax effect of income that is not taxable in determining current year taxable profit	(3,112)	(1,482)
Tax effect of expenses that are not deductible in determining current year taxable profit	2,625	15,256
Effect of tax exemptions granted to PRC subsidiaries	(77,094)	(23,970)
Effect of different tax rates of subsidiaries operating in other jurisdictions	178	89
Tax effect of tax losses not recognised	6,219	3,128
Others	(6)	—
Tax expense for the year	378	919

Note: Tax rate of 18% is adopted for the taxation reconciliation as such tax rate is applicable to most of the Group's operations in the PRC for the current year and the comparative figures for 2003 tax reconciliation was adjusted to conform with current year's presentation.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

	2004 HK\$'000	2003 HK\$'000
Non-executive directors		
Fees	518	137
Executive directors		
Fees	70	—
Salaries and other benefits	3,344	1,423
Pension costs	120	51
Performance related incentive payments	2,067	—
	6,119	1,611

The directors' remuneration of each individual director were within the following bands:

	2004	2003
Nil to HK\$1,000,000	7	12
HK\$1,000,001 to HK\$1,500,000	2	—
HK\$2,000,001 to HK\$2,500,000	1	—
	10	12



8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONT'D)

(ii) Employees

Details of remuneration paid by the Group to the five highest paid individuals (including four (2003: three) directors, whose remunerations are set out above together with the remuneration before their appointments as directors, and the remaining one (2003: two) employees) for the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	4,543	2,886
Pension costs	180	111
Performance related incentive payments	2,368	—
	7,091	2,997

Emoluments of these individuals were within the following bands:

	2004 HK\$'000	2003 HK\$'000
Nil to HK\$1,000,000	1	5
HK\$1,000,001 to HK\$1,500,000	2	—
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$2,000,001 to HK\$2,500,000	1	—

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

9. RETIREMENT BENEFIT SCHEMES

(a) Hong Kong

The Group participates in a pension scheme, which was registered under the Mandatory Provident Fund Scheme 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:

	2004 HK\$'000	2003 HK\$'000
Amount contributed and charged to the consolidated income statement	669	460

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2004



9. RETIREMENT BENEFIT SCHEMES (CONT'D)

(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:

	2004 HK\$'000	2003 HK\$'000
Amount contributed and charged to the consolidated income statement	9,446	3,278
Amount contributed and capitalised in the construction in progress	734	914

10. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim dividend paid of HK\$0.025 (2003: nil) per share	95,200	—
Final dividend proposed of HK\$0.061 (2003: nil) per share	232,318	—
	327,518	—

The proposed final dividend for 2004 is based on 3,808,490,000 shares in issue at 20 April 2005 and to be approved by shareholders in general meeting.

11. EARNINGS PER SHARE

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

	2004 HK\$'000	2003 HK\$'000
Net profit for the year and earnings for the purposes of basic and diluted earnings per share	1,307,856	589,460

	Number of ordinary shares	
	2004	2003
Weighted average number of ordinary shares for the purposes of basic earnings per share	3,808,004,351	2,886,235,616
Effect of dilutive potential ordinary shares:		
Share options	53,933,380	1,054,740
Over-allotment options	—	399,981
Weighted average number of ordinary shares for the purposes of diluted earnings per share	3,861,937,731	2,887,690,337



12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Power generating plant and equipment HK\$'000	Motor vehicles, furniture, fixtures, equipment and others HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP					
COST					
At 1 January 2004	389,577	1,536,516	22,617	4,232,069	6,180,779
Currency realignment	540	2,129	33	5,963	8,665
Additions	—	29	28,990	6,098,453	6,127,472
Disposals	—	(7)	(1,480)	—	(1,487)
Transfer	1,288,780	3,140,262	1,359	(4,430,401)	—
At 31 December 2004	1,678,897	4,678,929	51,519	5,906,084	12,315,429
DEPRECIATION					
At 1 January 2004	6,919	31,857	3,507	—	42,283
Currency realignment	9	43	5	—	57
Provided for the year	46,252	138,784	5,737	—	190,773
Eliminated on disposals	—	—	(371)	—	(371)
At 31 December 2004	53,180	170,684	8,878	—	232,742
NET BOOK VALUES					
At 31 December 2004	1,625,717	4,508,245	42,641	5,906,084	12,082,687
At 31 December 2003	382,658	1,504,659	19,110	4,232,069	6,138,496

Included in construction in progress is interest capitalised of HK\$220,377,000 (2003: HK\$91,561,000) not yet transferred to the appropriate categories of property, plant and equipment.

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

	Motor vehicles, furniture, fixtures, equipment and others HK\$'000
THE COMPANY	
COST	
At 1 January 2004	2,789
Additions	1,900
At 31 December 2004	4,689
DEPRECIATION	
At 1 January 2004	1,154
Provided for the year	981
At 31 December 2004	2,135
NET BOOK VALUES	
At 31 December 2004	2,554
At 31 December 2003	1,635

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2004



13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares/capital contribution, at cost	4,047,145	3,010,998
Amounts due from subsidiaries (note a)	2,907,338	3,079,789
Loans to subsidiaries (note b)	528,381	—
	7,482,864	6,090,787

Notes:

- (a) *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.*
- (b) *The amounts are unsecured, bear interest at prevailing market rates 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.*



13. INTERESTS IN SUBSIDIARIES (CONT'D)

Details of the Company's principal subsidiaries as at 31 December 2004 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 Power Dengfeng Co., Ltd. 華潤電力登封有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB630,000,000 Paid up capital - RMB509,849,894	85	—	Operation of a power station
China Resources (Luoyang) Thermal Power Co., Ltd. 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	—	Operation of a power station
China Resources Power (Changshu) Co., Ltd. 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\$121,459,981	100	—	Development of a power station
China Resources Power Hunan Liyujiang Co., Ltd. (note a) 湖南華潤電力(鯉魚江)有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB696,000,000 Paid-up capital - RMB417,600,000	60	—	Operation of a power station
China Resources Power Hubei Co., Ltd. (note b) 華潤電力湖北有限公司 (formerly known as Puqi Sithe Power Generating Company Limited 蒲圻賽德發電有限公司) ("CRP Hubei") (Wholly-Owned Foreign Enterprise)	PRC	Registered capital - US\$150,000,000 Paid-up capital - US\$112,000,000	100	—	Operation 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 - RMB117,356,030	—	60	Development of a power station

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2004



13. 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 %	
China Resources Power Performance Co., Ltd.	BVI#	Share - HK\$0.01	100	—	Investment holding
Tangshan China Resources Thermal Power Co., Ltd. 唐山華潤熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB270,490,000 Paid up capital - RMB160,975,159	—	80	Development of a power station
China Resources Power Henan Shouyangshan Co., Ltd. 河南華潤電力首陽山有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB1,237,500,000 Paid up capital - RMB359,001,350	—	80	Development of a power station
Yixing China Resources Thermal Power Co., Ltd. 宜興華潤熱電有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered capital - RMB201,000,000 Paid-up capital - RMB125,714,801	—	55	Development of a power plant

* *The non-voting deferred shares are not entitled to receive notice of or attend or vote at any general meeting and to any participation in the profits or surplus assets on winding up.*

** *The special share carries same rights as ordinary shares.*

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

The above table lists the subsidiaries of the Company 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 2004, the minority shareholder of China Resources Power Hunan Liyujiang Co., Ltd. ("CRP Liyujiang") has not yet paid up the required capital contribution. The Company has notified the minority shareholder to pay up the required capital contribution. The directors of the Company is now in the discussion with the minority shareholder for its profit entitlement on CRP Liyujiang before the contribution from the minority shareholder.*
- (b) *On 22 October 2002, the Company acquired with cash consideration a 100% equity interest in CRP Hubei 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 CRP Hubei 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.*



14. INTERESTS IN ASSOCIATES

	THE GROUP		
	2004 HK\$'000	2003 HK\$'000	
Share of attributable net assets	3,445,864	3,424,633	
Unamortised goodwill/negative goodwill	432,382	314,824	
	3,878,246	3,739,457	
	Negative goodwill HK\$'000	Goodwill HK\$'000	Total HK\$'000
MOVEMENTS OF GOODWILL/NEGATIVE GOODWILL OF ASSOCIATES			
COST			
At 1 January 2003	(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 (note)	—	(65,650)	(65,650)
At 31 December 2003	(47,168)	387,135	339,967
Arising on acquisition of an associate (note 33)	—	140,263	140,263
At 31 December 2004	(47,168)	527,398	480,230
AMORTISATION/RELEASE TO INCOME			
At 1 January 2003	(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
Amortised during the year	—	26,411	26,411
Released during the year	(3,706)	—	(3,706)
At 31 December 2004	(6,799)	54,647	47,848
CARRYING VALUES			
At 31 December 2004	(40,369)	472,751	432,382
At 31 December 2003	(44,075)	358,899	314,824

The purchased goodwill of associates is amortised over the estimated useful lives of 13 to 20 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.

Note: Fair value adjustment on acquisition of an associate was resulted from the change in the estimation of the tariff imposed by the Guangdong Province Bureau on Guangdong Guanghope Power Co., Ltd. as from 1 July 2002 (see note (a)(ii) below).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2004

14. INTERESTS IN ASSOCIATES (CONT'D)

Particulars of associates held by the Group at 31 December 2004 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 capital - US\$391,600,000 Paid-up capital - US\$241,600,000	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 and paid-up capital - RMB796,120,000	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
Guangdong Xingning Xingda Power Co., Ltd. 廣東省興寧市興達電力有限公司 (Sino-Foreign Equity Joint Venture)	PRC	Registered and paid-up capital - RMB337,500,000	29%	Development 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.



14. INTERESTS IN ASSOCIATES (CONT'D)

Notes: (cont'd)

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

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\$599,356,000 (2003: HK\$382,412,000) for the year ended 31 December 2004.

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 years ended 31 December 2004 and 2003 of Guangdong Guanghope, are as follows:

Balance sheet

	2004 RMB'000	2003 RMB'000
Non-current assets	8,269,671	8,951,367
Current assets	1,408,994	453,543
Current liabilities	(942,442)	(509,308)
Non-current liabilities	(717,306)	(621,827)
Shareholders' funds	8,018,917	8,273,775

Income statement

	2004 RMB'000	2003 RMB'000
Turnover	4,767,026	4,214,541
Net profit for the year	1,607,443	879,012

Cash flow statement

	2004 RMB'000	2003 RMB'000
Net cash from operating activities	2,175,117	1,643,327
Net cash used in investing activities	(42,884)	(11,939)
Net cash used in financing activities	(2,072,291)	(1,756,430)
Net increase (decrease) in cash and cash equivalents	59,942	(125,042)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2004



14. INTERESTS IN ASSOCIATES (CONT'D)

Notes: (cont'd)

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

(i) Litigation

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 which took 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.

On 30 December 2004, Guangdong Guanghope and PICC reached an agreement and PICC agreed to pay Guangdong Guanghope US\$86,000,000 to settle the legal proceedings against PICC and such insurance claim. The insurance claim settlement was recognised as income in Guangdong Guanghope's 2004 financial statements.

(ii) Share of results of Guangdong Guanghope

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 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 and reflected in the consolidated financial statements for the year ended 31 December 2003.

(b) Wenzhou Telluride

The Group owned 100% effective interest in Telluride International Energy Limited Partnership ("Telluride International") which hold 40% interest in Wenzhou Telluride.

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 and the power generating related assets and other property, plant and equipment will be reverted to the PRC owners without compensation. Telluride International is entitled to share 40% of the operating surplus of Wenzhou Telluride.



14. INTERESTS IN ASSOCIATES (CONT'D)

Notes: (cont'd)

(b) Wenzhou Telluride (cont'd)

At 31 December 2004, Telluride International has pledged its equity interest in Wenzhou Telluride and a bank deposit amounting to HK\$39,492,000 (2003: HK\$39,246,000) to a bank for securing the bank loans granted to Wenzhou Telluride of approximately HK\$476,883,000 (2003: HK\$717,213,000).

The extracts of the unaudited management accounts prepared under accounting principles generally accepted in Hong Kong for the years ended 31 December 2004 and 2003 of Wenzhou Telluride, are as follows:

Balance sheet

	2004 RMB'000	2003 RMB'000
Non-current assets	2,453,279	2,718,869
Current assets	385,945	394,301
Current liabilities	(223,399)	(252,515)
Non-current liabilities	(1,160,052)	(1,554,146)
Shareholders' funds	1,455,773	1,306,509

Income statement

	2004 RMB'000	2003 RMB'000
Turnover	1,543,825	1,321,227
Net profit for the year	458,754	355,181

Cash flow statement

	2004 RMB'000	2003 RMB'000
Net cash from operating activities	634,571	644,832
Net cash from (used in) investing activities	96,046	(14,948)
Net cash used in financing activities	(795,819)	(806,534)
Net decrease in cash and cash equivalents	(65,202)	(176,650)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2004



14. 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 China Resources (Holdings) Company Limited ("CRH") in the form of shareholder's loan. Such shareholder's loan was subsequently capitalised on 17 October 2003.

The extracts of unaudited management accounts prepared under accounting principles generally accepted in Hong Kong for the years ended 31 December 2004 and 2003 of Xuzhou Power are as follows:

Consolidated balance sheet

	2004 RMB'000	2003 RMB'000
Non-current assets	2,914,142	2,418,210
Current assets	871,056	519,191
Current liabilities	(1,752,170)	(1,426,017)
Non-current liabilities	(810,000)	(469,182)
Shareholders' funds	1,223,028	1,042,202

Consolidated income statement

	2004 RMB'000	2003 RMB'000
Turnover	1,453,508	997,641
Net profit for the year	387,036	274,579

Consolidated cash flow statement

	2004 RMB'000	2003 RMB'000
Net cash from operating activities	254,197	583,155
Net cash used in investing activities	(634,081)	(723,441)
Net cash from financing activities	390,695	189,295
Net increase in cash and cash equivalents	10,811	49,009



15. INTEREST IN JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of attributable net assets	1,185,109	992,133

Particulars of the jointly controlled entity held by the Group at 31 December 2004 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. ("BOCGICR"), 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 ("HIPDC"), in the form of a shareholder's loan. Such shareholder's loan was then capitalised on 17 October 2003.

HIPDC was established as a sino-foreign equity joint venture company on 8 June 1985, in accordance with the "Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment". The joint venture period is 20 years and will expire on 7 June 2005. It is the intention of the management of HIPDC to apply for extension of the joint venture period. The Group's interest in BOCGICR is based on BOCGICR's share of net assets of HIPDC prepared on a going concern basis and, accordingly, does not reflect any adjustments that might be necessary in the event that the joint venture period of HIPDC is not extended.

16. GOODWILL

	HK\$'000
THE GROUP	
GROSS VALUE	
At 1 January 2004 and 31 December 2004	117,377
AMORTISATION	
At 1 January 2004	5,869
Amortised during the year	5,869
At 31 December 2004	11,738
CARRYING VALUES	
At 31 December 2004	105,639
At 31 December 2003	111,508

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 2004



17. NEGATIVE GOODWILL

	HK\$'000
THE GROUP	
GROSS VALUE	
At 1 January 2004 and 31 December 2004	(54,087)
RELEASE TO INCOME	
At 1 January 2004	—
Released during the year	1,352
At 31 December 2004	1,352
CARRYING VALUES	
At 31 December 2004	(52,735)
At 31 December 2003	(54,087)

The negative goodwill is released to income on a straight-line basis over the remaining weighted average useful life of the depreciable assets acquired.

18. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Coal	110,176	1,451
Fuel oil	23,298	2,922
Spare parts and consumables	20,881	5,681
	154,355	10,054

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

19. 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:

	2004 HK\$'000	2003 HK\$'000
0 - 30 days	327,534	148,633
31 - 60 days	73,373	91,896
	400,907	240,529



20. AMOUNTS DUE FROM ASSOCIATES

THE GROUP AND THE COMPANY

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

21. 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.

22. AMOUNTS DUE FROM RELATED COMPANIES

THE GROUP AND THE COMPANY

The amounts are due from an associate of the immediate holding company and a subsidiary of jointly controlled entity of the Company and the amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

23. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

THE GROUP

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

	2004 HK\$'000	2003 HK\$'000
0 - 30 days	129,954	30,730
61 - 90 days	590	—
181 - 365 days	183	—
	130,727	30,730

24. AMOUNT DUE FROM/TO IMMEDIATE HOLDING COMPANY

THE GROUP AND THE COMPANY

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

25. AMOUNTS DUE TO ASSOCIATES

THE GROUP AND THE COMPANY

The amounts were unsecured, non-interest bearing and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2004



26. AMOUNTS DUE TO SHAREHOLDERS OF AN ASSOCIATE

THE GROUP

The amounts were unsecured, non-interest bearing and repayable on demand.

27. AMOUNTS DUE TO/LOANS FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

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

Demand for repayment of the loans of HK\$18,786,000 (2003: HK\$239,393,000) 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.

28. BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Secured bank loans	239,991	—
Unsecured bank loans	8,795,606	4,273,528
Unsecured other loans	23,952	14,632
	9,059,549	4,288,160
The maturity profile of the above loans is as follows:		
Within 1 year	2,457,679	1,915,958
More than 1 year, but not exceeding 2 years	499,708	437,108
More than 2 years, but not exceeding 5 years	1,873,903	691,306
More than 5 years	4,228,259	1,243,788
	9,059,549	4,288,160
Less: Amount due within 1 year shown under current liabilities	(2,457,679)	(1,915,958)
Amount due after 1 year	6,601,870	2,372,202
The above bank and other loans are supported by:		
Guarantees provided by the Company	5,509,370	1,206,268
Guarantees provided by minority shareholders of subsidiaries	660,892	810,432
Pledged of assets (note)	239,991	—
No guarantee required	2,649,296	2,271,460
	9,059,549	4,288,160

Note: Certain bank loans are secured by the Group's land and buildings, power generating plant and equipment and construction in progress with carrying values of HK\$9,918,000 (2003: nil), HK\$117,691,000 (2003: nil) and HK\$191,450,000 (2003: nil) respectively.



29. DEFERRED TAXATION

	2004 HK\$'000	2003 HK\$'000
THE GROUP		
At 1 January	5,026	5,942
Currency realignment	—	3
Charge to income statement for the year (note 7)	(378)	(919)
At 31 December	4,648	5,026

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

	2004 HK\$'000	2003 HK\$'000
Deferred taxation assets	7,876	5,942
Deferred taxation liabilities	(3,228)	(916)
	4,648	5,026

At 31 December 2004, the Group has unused tax losses of HK\$61,246,000 available for offset against future profits. No deferred tax asset has been recognised in respect of HK\$10,718,000 due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

THE COMPANY

At 31 December 2004, the Company has unused tax losses of HK\$58,816,000 available for offset against future profits. No deferred tax asset has been recognised in respect of HK\$10,293,000 due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2004



30. SHARE CAPITAL

	Number of shares		Amount	
	2004 '000	2003 '000	2004 HK\$'000	2003 HK\$'000
Ordinary shares of HK\$1.00 each				
Authorised:				
Balance at 1 January	10,000,000	3,600,000	10,000,000	3,600,000
Increase during the year (note a)	—	6,400,000	—	6,400,000
Balance at 31 December	10,000,000	10,000,000	10,000,000	10,000,000
Issued and fully paid:				
Balance at 1 January	3,808,000	10	3,808,000	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
- upon exercise of share options	80	—	80	—
Balance at 31 December	3,808,080	3,808,000	3,808,080	3,808,000

- (a) 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 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\$1.00 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 specific amount of outstanding shareholder's loans as at that date owing by the Company to CRH. These shares rank pari passu in all respects with the then existing shares.
- (c) On 12 November 2003 and 5 December 2003, the Company allotted and issued 920,000,000 shares of HK\$1.00 each upon listing on the Stock Exchange and 138,000,000 shares of HK\$1.00 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 the grantees 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 the share options will be allowed to exercise upon each of the first five anniversary dates.

Movement of options under Pre-IPO Share Option Scheme during the years ended 31 December 2003 and 2004 is as follows:

	Exercise price HK\$	Number of options					
		Granted on 6.10.2003	Lapsed or cancelled during the year ended 31.12.2003	Outstanding at 31.12.2003	Lapsed or cancelled during the year ended 31.12.2004	Exercised during the year ended 31.12.2004	Outstanding at 31.12.2004
Directors of the Company	2.80	17,500,000	—	17,500,000	—	—	17,500,000
Directors of CRH	2.80	3,600,000	—	3,600,000	—	—	3,600,000
Employees of the Company	2.80	101,575,000	—	101,575,000	(1,000,000)	—	100,575,000
Employees of CRH and its subsidiaries	2.80	44,720,000	(110,000)	44,610,000	—	(80,000)	44,530,000
		167,395,000	(110,000)	167,285,000	(1,000,000)	(80,000)	166,205,000

The market prices of shares of which options were exercised on 22 November 2004 and 23 December 2004 were HK\$4.53 and HK\$4.18 per share, respectively.

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 ended 31 December 2003 for the options granted under Pre-IPO Share Option Scheme was amounted to HK\$591.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2004



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 highest 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 the share options will be allowed to exercise on each of the first five anniversary dates.

Movement of options under the Share Option Scheme during the year is as follows:

	Exercise price HK\$	Number of options granted on 1.9.2004 and outstanding at 31.12.2004
Employees of the Company	4.25	23,600,000
Employees of CRH and its subsidiaries	4.25	4,300,000
		27,900,000

Total consideration received during the year for the options under the Share Option Scheme was amounted to HK\$84.

Pursuant to the International Underwriting Agreement dated 7 November 2003, the Company had 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 74.

General reserve is part of the 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 2004, the retained profits of the Group include HK\$966,785,000, (2003: HK\$525,083,000) and HK\$174,070,000 (2003: HK\$32,416,000) retained by associates and jointly controlled entity of the Group, respectively.

	Share premium HK\$'000	Merger reserve HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000
<u>THE COMPANY</u>				
At 1 January 2003	—	82,309	(16,270)	66,039
Issue of shares:				
- by capitalisation issue pursuant to group reorganisation before listing	2,672,066	—	—	2,672,066
- upon listing	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
Shares issued upon exercise of options, net of expenses	144	—	—	144
Net profit for the year	—	—	423,915	423,915
2004 interim dividend paid	—	—	(95,200)	(95,200)
At 31 December 2004	4,469,136	82,309	298,513	4,849,958

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 for the acquisition.

Reserves of the Company available for distribution to shareholders amounted to HK\$380,822,000 as at 31 December 2004 (2003: HK\$52,107,000).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2004



33. ACQUISITION OF SUBSIDIARIES/BUSINESS

During the year, the Group acquired 100% of the issued share capital of S.T.K. Technology Co., Ltd, which hold 29% interest in Guangdong Xingning Xingda Power Co., Ltd., for consideration of HK\$232,187,000.

During the year ended 31 December 2003, the Group acquired from CRH 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 ended 31 December 2003. These acquisitions have been accounted for by the acquisition method of accounting.

	2004 HK\$'000	2003 HK\$'000
NET ASSETS/BUSINESS ACQUIRED		
Interests in associates	91,924	314,285
Interest in jointly controlled entity	—	929,703
Amount due to immediate holding company	—	1
	91,924	1,243,989
Goodwill attributable to an associate (note)	140,263	—
Total consideration	232,187	1,243,989
SATISFIED BY		
Cash	232,187	—
Capitalisation issue of shares as part of Group Reorganisation	—	1,243,989
	232,187	1,243,989
NET CASH OUTFLOW ARISING ON ACQUISITIONS		
Cash consideration	232,187	—
Balance of consideration payable	(52,187)	—
Net outflow of cash and cash equivalents in respect of the acquisitions of subsidiaries/business	180,000	—

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



34. 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:

	2004		2003	
	Land and buildings HK\$'000	Other assets HK\$'000	Land and buildings HK\$'000	Other assets HK\$'000
THE GROUP				
Within one year	974	129	1,380	162
In the second to fifth year inclusive	240	515	926	514
Over five years	5	2,299	—	2,473
	1,219	2,943	2,306	3,149
THE COMPANY				
Within one year	476	—	858	—
In the second to fifth year inclusive	—	—	476	—
	476	—	1,334	—

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.

35. CAPITAL COMMITMENTS

	2004 HK\$'000	2003 HK\$'000
THE GROUP		
Capital expenditure in respect of the acquisition of construction in progress:		
- Authorised but not contracted for	15,719	23,735
- Contracted for but not provided in the financial statements	4,707,443	6,277,163
THE COMPANY		
Unpaid capital contribution to subsidiaries	503,802	1,142,332

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

For the year ended 31 December 2004



36. CONTINGENT LIABILITIES

	2004 HK\$'000	2003 HK\$'000
THE COMPANY		
Guarantees given to banks for credit facilities granted to subsidiaries (to the extent of facilities utilised)	5,509,370	1,206,268

37. RELATED PARTY TRANSACTIONS

The Company entered into two trademark 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 of 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. The option was exercised and the acquisition of Hengfeng Phase II was completed in January 2005 (see note 38).



37. RELATED PARTY TRANSACTIONS (CONT'D)

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

Name of related company	Relationship	Nature of transactions	2004 HK\$'000	2003 HK\$'000
China Resources Property Management Co., Ltd.	Fellow subsidiary	Rental expenses paid by the Group (note a)	1,159	1,249
Wenzhou Telluride	Associate	Service income received by the Group (note a)	3,561	3,900
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	6,420
CRH	Immediate holding company	Management fee income received by the Group (note a)	2,475	542
CRNC	Ultimate holding company	Management fee income received by the Group (note a)	238	62

Notes:

- (a) *The transactions were carried out in accordance with the relevant agreements.*
- (b) *The transactions were carried out with reference to the 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 date which are set out in notes 20, 21, 22, 24 and 25.

38. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group has the following significant post balance sheet events:

- (a) On 30 August 2004, the Company exercised the right to acquire Hengfeng Phase II at a consideration of approximately HK\$61,000,000, which is equal to the net book value of Hengfeng Phase II on the same day as determined by an independent valuer. Such acquisition was completed in January 2005 and Hengfeng Phase II became a 25% owned associate of the Company thereafter.
- (b) On 31 December 2004, a subsidiary of the Company entered into agreement with a third party to acquire 1.1% interest in Resources Shajiao at a consideration of US\$3,000,000. The equity interest of the Group in Resources Shajiao increased from 73.9% to 75% and the Group's effective interest in Guangdong Guanghope, an associate of Resources Shajiao, increased from 29.56% to 30%. Such transaction was completed in January 2005.