(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated accounts for the year ended 31 December 2005 comprise Wing Shan International Limited ("the Company") and its subsidiaries (together referred to as the "Group").

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these accounts is provided in note 2.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is the historical cost basis.

The preparation of accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions and estimation made by management in the application of HKFRSs that have significant effect on the accounts and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year are disclosed in note 30.

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest, except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(f)).

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment loss (see note 1(f)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognized immediately in profit or loss.

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(f)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and recognized in profit and loss on the date of retirement or disposal.

Depreciation and amortization are calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Building situated on leasehold land are depreciated over the shorter of unexpired term of lease and their estimated useful lives.

– Plant, machinery and equipment	27 years
– Motor vehicles	5 years
– Others	2-10 years

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortized cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognized as follows:

For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for these current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.

For financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

(ii) Impairment of other long-lived assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- prepayment for planned maintenance;
- investments in subsidiaries; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Impairment of assets (Continued)

(ii) Impairment of other long-lived assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognized in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined has no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the profit and loss in the year in which the reversals are recognized.

(g) Consumables

Consumables comprise fuel oil, components and replacement parts held for consumption by the Group. Fuel oil is stated at cost computed using the weighted average method. Components and replacement parts are stated at cost computed using the weighted average method less any provisions for damages or obsolescence.

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less impairment losses for bad and doubtful debts (see note 1(f)), unless the effect of discounting would be immaterial. In such cases, they are stated at cost less impairment losses for bad and doubtful debts (see note 1(f)).

(i) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in profit and loss over the period of the borrowings using the effective interest method.

(j) Trade and other payables

Trade and other payables are initially recognized at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(l) Employees benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Employees benefits (Continued)

(ii) Shared based payments

The fair value of share options granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into accounts the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognized in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it released directly to retained profits).

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rate enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes. The initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible difference, unless it is probable that they will reverse in the future.

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

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Income tax (Continued)

– in the case of deferred tax assets and liabilities, if they relate to incomes taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(n) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of electricity

Revenue arising from sale of electricity is recognized based on electricity supplied as recorded by meters read during the year. Additional fuel cost surcharges for electricity supplied, representing an adjustment for tariff of electricity supplied, are recorded as revenue in the period that agreement on the surcharge amount is reached. Subsequent agreement in respect of the current period is accrued in the current period if the agreement occurs prior to finalization of the accounts.

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Revenue recognition (Continued)

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

(iii) Interest income

Interest income is recognized as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognized in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as revenue in profit or loss on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized in profit or loss as revenue on a systematic basis over the useful life of the asset.

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and loss are recognized in profit or loss.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange difference recognized in equity which relate to that foreign operation is included in the calculation of profit or loss on disposal.

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Operating lease charges

Where the Group has the use of assets under operating leases, payments make under the leases are expensed in profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term.

(r) Borrowing costs

Borrowing costs are expensed in profit and loss in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(s) Related parties

For the purpose of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(Expressed in Hong Kong dollars)

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarized in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these accounts.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 32).

(a) Employee share option scheme (HKFRS 2, "Share-based payment")

In prior years, no amounts were recognized when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognizes the fair value of such share options as an expense with corresponding increase recognized in a capital reserve within equity. Further details of the new policy are set out in note 1(l)(ii).

The Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(i) all options granted to employees on or before 7 November 2002; and

(ii) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As a result, no adjustment to the opening balance is required as all options are granted either on or before 7 November 2002 or granted after 7 November 2002 but which had vested before 1 January 2005.

Details of the employee share option scheme are set out in note 26.

(b) Leasehold land and buildings held for own use (HKAS 17, "Leases")

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses.

With effect from 1 January 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(Expressed in Hong Kong dollars)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Leasehold land and buildings held for own use (HKAS 17, "Leases") (Continued)

Further details of the new policy are set out in notes 1(e) and 1(q). Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

The new accounting policy has been adopted retrospectively but there is no impact on the Group's net assets as at the year end 31 December 2004 and 2005 and on the Group's loss for the years presented. Additional line item "Interests in leasehold land held for own use under operating leases" which previously included in "Property, plant and equipment" has been included on the face of consolidated balance sheet. Comparative figures of "Property, plant and equipment" have been restated to conform with the current year's presentation.

(c) Amortization of goodwill (HKFRS 3, "Business combinations" and HKAS 36, "Impairment of assets")

In prior periods, goodwill was amortized on a straight-line basis over its estimated useful life and was subject to impairment testing when there were indications of impairment.

With effect from 1 January 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortizes goodwill but tests it at least annually for impairment. Further details of the new policy are set out in note 1(d).

The new policy in respect of the amortization of goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortization as at 1 January 2005 has been offset against the cost of the goodwill and no amortization charge for goodwill has been recognized in the consolidated profit and loss account for the year ended 31 December 2005. The Group's amortization of goodwill and loss for the year ended 31 December 2005 has been decreased by $31,621,000; the basic loss per share for the year ended 31 December 2005 has been decreased by 3.8 cents.

(d) Retranslation of goodwill on consolidation of a foreign operation (HKAS 21, "The effects of changes in foreign exchange rates")

In prior years, goodwill arising on the acquisition of a foreign operation was translated at exchange rates ruling at the transaction dates.

With effect from 1 January 2005, in order to comply with HKAS 21, the Group has changed its accounting policy relating to retranslation of goodwill. Under the new policy, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and is retranslated at exchange rates ruling at the balance sheet date, together with the retranslation of the net assets of the foreign operation. Further details of the new policy is set out in note 1(p).

(Expressed in Hong Kong dollars)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(d) Retranslation of goodwill on consolidation of a foreign operation (HKAS 21, "The effects of changes in foreign exchange rates") (Continued)

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and will only be applied to acquisitions occurring on or after 1 January 2005. As the Group has not acquired any new foreign operations since that date, the change in policy has had no impact on the accounts for the year ended 31 December 2005.

(e) Change in presentation of minority interests (HKAS 1, "Presentation of financial statements" and HKAS 27, "Consolidated and separate financial statements")

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated profit and loss account as a deduction before arriving at the loss attributable to shareholders (the equity shareholders of the Company).

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented in the consolidated balance sheet as part of equity, separately from equity attributable to the equity shareholders of the Company, and minority interests in the results of the Group for the year to be presented on the face of the consolidated profit and loss account as an allocation of the total income or loss for the year between the minority interests and equity shareholders of the Company. Further details of the new policy are set out in note 1(c).

The presentation of minority interests in the consolidated balance sheet, consolidated profit and loss account and consolidated statement of changes in equity for the comparative year has been restated accordingly.

(f) Classification of liabilities (HKAS 1, "Presentation of financial statements" and HKAS 10 "Events after the balance sheet date")

In prior years, loan that was due to be settled within twelve months after the balance sheet date was still classified as non-current liability if an agreement to reschedule payments on a long-term basis was completed after the balance sheet date and before the accounts were authorized for issue.

With effect from 1 January 2005, in accordance with HKAS 1, loan that is due to be settled within twelve months after the balance sheet date is classified as current liability even if an agreement to reschedule payments on a long-term basis is completed after the balance sheet date and before the accounts are authorized for issue. However, this would qualify for disclosure as a non-adjusting event in accordance with HKAS 10.

As a result, other long term loans amounting to $93.7 million as at 31 December 2004 which were previously classified as non-current liabilities have been reclassified into current portion of other long term loans in order to conform with the current year's presentation.

(Expressed in Hong Kong dollars)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(g) Definition of related parties (HKAS 24, "Related party disclosures")

As a result of the adoption of HKAS 24, the definition of related parties as disclosed in note 1(s) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. With effect from 1 January 2005, in order to comply with HKAS 24, the Group has made further disclosure of key management personnel compensation and contributions to post-employment benefit plans.

(h) Financial instruments (HKAS 32, "Financial instruments: Disclosure and presentation" and HKAS 39, "Financial instruments: Recognition and measurement")

With effect from 1 January 2005, in order to comply with HKAS 32 and HKAS 39, the Group has changed its accounting policies relating to financial instruments, to those set out in notes 1(f)(i) and (h) to (j). The changes in policies had no material impact on the accounts for the year ended 31 December 2004 and 2005.

3. TURNOVER

The principal activity of the Group is the generation and sale of electricity. Turnover represents the invoiced value, net of value added tax, of electricity supplied in Foshan City, Guangdong Province, the People's Republic of China ("PRC") and additional fuel cost surcharges of $82.1 million (2004: $12.3 million) for electricity supplied, representing an adjustment for tariff of electricity supplied.

4. SEGMENT REPORTING

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

5. OTHER REVENUE AND NET INCOME

Other revenue

	2005	2004
	$'000	$'000
Government grants	**11,575**	–
Interest income	**1,724**	1,638
	13,299	1,638

(Expressed in Hong Kong dollars)

5. OTHER REVENUE AND NET INCOME (Continued)

Other net income

	2005	2004
	$'000	$'000
Insurance compensation	119	850
Net exchange gain	–	67
Rental income	4,576	1,879
Gain on disposal of fixed assets	–	18
Interest payable waived by a lender	–	9,032
Others	387	656
	5,082	12,502

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging

	2005	2004
		(restated)
	$'000	$'000
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	18,555	20,892
(b) Staff costs		
Salaries, wages and other benefits	21,584	20,130
Contribution to defined contribution plans	1,089	1,282
	22,673	21,412
(c) Other items		
Auditors' remuneration	940	780
Cost of consumables	804,457	626,767
Depreciation and amortization (other than goodwill)		
– assets held for use under operating leases	4,114	1,692
– lease prepayment	2,025	1,999
– other assets	87,817	91,490
Impairment losses		
– goodwill	578,319	–
– fixed assets	120,342	–
Operating lease charges on buildings	300	300

(Expressed in Hong Kong dollars)

7. INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

(a) Taxation in the consolidated profit and loss account represents:

	2005	2004
	$'000	$'000
Current tax		
PRC enterprises income tax for the year	**–**	–
Under-provision in respect of prior years	**–**	188
	–	188
Deferred tax		
Origination and reversal of temporary differences (note 18(b))	**(18,195)**	(7,641)
	(18,195)	(7,453)

No provision has been made for the Hong Kong Profits Tax as the Group sustained losses in Hong Kong for taxation purposes during the year. No provision has been made for PRC enterprise income tax 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 during the year.

(b) Reconciliation between tax credit and accounting loss at applicable tax rates:

	2005	2004
	$'000	$'000
Loss before tax	**(825,358)**	(67,924)
Notional tax on loss before tax, calculated at rates applicable to profit/(loss) in the countries concerned	**(145,644)**	(12,039)
Tax effect on non-deductible expenses	**102,311**	6,492
Tax effect on non-taxable revenue	**(598)**	(2,170)
Tax effect on unused tax losses not recognized	**25,736**	76
Under-provision in prior years	**–**	188
	(18,195)	(7,453)

(Expressed in Hong Kong dollars)

8. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees	Salaries allowances	Discretionary bonuses	Retirement scheme contributions	2005 Total
	$'000	$'000	$'000	$'000	$'000
Executive directors					
He Haochang	100	390	45	18	553
Lam Siu Hung	50	244	38	11	343
Chan Che Kan, Edward	70	916	–	83	1,069
Situ Min	100	390	45	18	553
Li Feng	100	89	266	17	472
Independent non-executive directors					
Chan Ting Chuen, David	100	–	–	–	100
Ng Pui Cheung, Joseph	100	–	–	–	100
Cheung Kin Piu, Valiant	100	–	–	–	100
	720	2,029	394	147	3,290

	Directors' fees	Salaries allowances	Discretionary bonuses	Retirement scheme contributions	2004 Total
	$'000	$'000	$'000	$'000	$'000
Executive directors					
He Haochang	100	390	–	18	508
Lam Siu Hung	33	–	–	–	33
Chan Che Kan, Edward	100	1,300	–	118	1,518
Situ Min	100	358	–	17	475
Li Feng	100	94	204	16	414
Independent non-executive directors					
Chan Ting Chuen, David	100	–	–	–	100
Ng Pui Cheung, Joseph	100	–	–	–	100
Cheung Kin Piu, Valiant	80	–	–	–	80
	713	2,142	204	169	3,228

(Expressed in Hong Kong dollars)

8. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

Of the five individuals with the highest emoluments, five (2004: four) are directors whose emoluments are disclosed in the above. The details of the remaining one in 2004 were:

	2004
	$'000
Salaries and other emoluments	335
Retirement scheme contributions	15
	350

9. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of $726,151,000 (2004: $5,383,000) which has been dealt with in the accounts of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	2005	2004
	$'000	$'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's accounts	**(726,151)**	(5,383)
Final dividends from subsidiary attributable to the profits of the previous financial year, approved and paid during the year	**12,680**	19,640
Company's (loss)/profit for the year (note 24)	**(713,471)**	14,257

(Expressed in Hong Kong dollars)

10. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2004 and 2005.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2005	2004
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the year of nil cents per share (2004: 1.5 cents per share)	–	12,452

11. LOSS PER SHARE

(a) Basic

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of $762,579,000 (2004: $55,857,000) and on the weighted average of 830,146,244 ordinary shares (2004: 829,883,228 shares) in issue during the year.

(b) Diluted

The diluted loss per share for the years ended 31 December 2004 and 2005 is not shown as all potential ordinary shares are anti-dilutive.

12. MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with Foshan Electric Power Construction Group Corporation ("Power Group Corporation"), its subsidiaries and associate

Foshan City District Electric Power Construction Corporation ("Power Construction Corporation") is a substantial shareholder of Shakou JV. Power Construction Corporation is a part of a larger group of companies under Power Group Corporation, which are owned by the PRC government and Shakou JV has significant transactions and relationships with Power Group Corporation, its subsidiaries and associate. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties.

(Expressed in Hong Kong dollars)

12. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with Foshan Electric Power Construction Group Corporation ("Power Group Corporation"), its subsidiaries and associate (Continued)

The following is a summary of principal related party transactions with Power Group Corporation, its subsidiaries and associate, which were carried out in the ordinary course of business. These transactions also constitute connected transactions under Listing Rules. Further details of these transactions are disclosed under the paragraph "Connected Transactions" in the directors' report.

Name of related company	**Nature of transaction**	Note	**2005 $'000**	2004 $'000
Foshan City District Electricity Fuel Supply Company	Purchase of fuel (excluding value added tax)	(i)	**700,531**	542,822
Foshan City District Electric Power Construction Corporation and its associate	Interest on loans	(ii)	**12,073**	15,861
	Interest payable waived	(ii)	**–**	9,032
Funeng Power Supply Co., Ltd.	Lease of facilities and premises	(iii)	**4,550**	1,872

(i) During the year, 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 31 December 2005, amount due to Fuel Company was $120.8 million (2004: $108.2 million). The Fuel Company, 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. The Fuel Company supplies fuel to the Group at prices which are determined by Shakou JV and the Fuel Company from time to time, but in any event will not be higher than: i) the then prevailing market prices for sales of fuel by the Fuel Company to independent third parties; or ii) the then quotation of price of the fuel that Shakou JV could obtain from other independent supplier, whichever is lower.

(ii) During the year, 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 31 December 2005, the outstanding loans amounted to approximately $296.98 million (2004: $289.04 million). As at 31 December 2005, the loans amounting to $161.02 million are interest-bearing at a fixed rate of 5.76% per annum and the remaining balances are interest free (2004: loans amounting to $223.16 million are interest bearing at a fixed rate of 5.76% per annum and the remaining balances are interest free).

As at 31 December 2005, there was no significant overdue interest payable to these parties (There was overdue interest payable as at 31 December 2004 amounting to $7.2 million, which was interest free).

(Expressed in Hong Kong dollars)

12. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with Foshan Electric Power Construction Group Corporation ("Power Group Corporation"), its subsidiaries and associate (Continued)

(iii) In July 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 leased 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 would receive two annual rental payments of approximately $4.55 million (Rmb: 4.80 million) for each of the two years.

(b) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees as disclosed in note 8 is as follows:

	2005	2004
	$'000	$'000
Short-term employee benefits	**3,143**	3,059
Post-employments benefits	**147**	169
	3,290	3,228

Total remuneration is included in "staff costs" (see note 6(b)).

(c) Transactions with other state-owned entities in the PRC

Power Group Corporation is a state-owned entity and together with Shakou JV both operate in an economic regime currently predominated by entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-owned entities"). Apart from transactions mentioned in note 12(a), the Group conducts a majority of its business activities with state-owned entities in the ordinary course of business. These transactions include sales of electricity, purchase of fuel and materials, purchase of property, plant and equipment and obtaining finance and are carried out at terms similar to those that would be entered into with non-state-owned entities. The Group believes that it has provided meaningful disclosure of related party transactions in note 12(a).

(Expressed in Hong Kong dollars)

13. FIXED ASSETS

	Buildings $'000	Plant, machinery and equipment $'000	Motor vehicles $'000	Others $'000	Sub-total $'000	Interests in leasehold land held for own use under operating lease $'000	The Group Total $'000	The Company Others $'000
Cost								
At 1 January 2004	142,599	1,802,205	9,386	12,060	1,966,250	55,972	2,022,222	2,880
Additions	–	317	–	409	726	–	726	–
Disposal	–	(6,412)	(794)	(1,859)	(9,065)	–	(9,065)	(1,859)
At 31 December 2004	142,599	1,796,110	8,592	10,610	1,957,911	55,972	2,013,883	1,021
At 1 January 2005	142,599	1,796,110	8,592	10,610	1,957,911	55,972	2,013,883	1,021
Exchange adjustments	3,922	49,393	218	251	53,784	1,539	55,323	–
Additions	–	–	229	109	338	–	338	–
Disposal	–	–	–	(893)	(893)	–	(893)	(893)
At 31 December 2005	146,521	1,845,503	9,039	10,077	2,011,140	57,511	2,068,651	128
Accumulated depreciation and amortization								
At 1 January 2004	43,961	592,919	8,521	10,415	655,816	17,491	673,307	2,880
Charge for the year	5,283	86,522	203	1,174	93,182	1,999	95,181	–
Written back on disposal	–	(6,412)	(794)	(1,859)	(9,065)	–	(9,065)	(1,859)
At 31 December 2004	49,244	673,029	7,930	9,730	739,933	19,490	759,423	1,021
At 1 January 2005	49,244	673,029	7,930	9,730	739,933	19,490	759,423	1,021
Exchange adjustments	1,431	19,747	199	234	21,611	565	22,176	–
Charge for the year	5,352	85,889	205	485	91,931	2,025	93,956	–
Impairment loss (note 14)	9,628	107,104	–	–	116,732	3,610	120,342	–
Written back on disposal	–	–	–	(893)	(893)	–	(893)	(893)
At 31 December 2005	65,655	885,769	8,334	9,556	969,314	25,690	995,004	128
Net book value:								
At 31 December 2005	80,866	959,734	705	521	1,041,826	31,821	1,073,647	–
At 31 December 2004	93,355	1,123,081	662	880	1,217,978	36,482	1,254,460	–

(Expressed in Hong Kong dollars)

13. FIXED ASSETS (Continued)

All of the Group's buildings are located in the PRC. Interests in leasehold land for own use under operating leases related to the right to use the land of Shakou JV, on which the Group's buildings and plant are situated, for period to 1 May 2043.

As described in note 12(a)(iii), the Group leases out certain assets under an operating lease at a fixed annual rental payment for a period of two years, with the option to renew the lease after that date at which time all terms are renegotiated. The lease does not include contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	2005	2004
	$'000	$'000
Within 1 year	**2,692**	4,492
After 1 year but within 5 years	**–**	2,620
	2,692	7,112

14. GOODWILL

The Group	$'000
Cost	
At 1 January 2004 and 31 December 2004	790,533
At 1 January 2005	790,533
Opening balance adjustment to eliminate accumulated amortization	(212,214)
At 31 December 2005	578,319
Accumulated amortization and impairment losses	
At 1 January 2004	180,593
Amortization for the year	31,621
At 31 December 2004	212,214
At 1 January 2005	212,214
Eliminated against cost at 1 January 2005	(212,214)
Impairment loss	(578,319)
At 31 December 2005	(578,319)
Carrying amount	
At 31 December 2005	–
At 31 December 2004	578,319

(Expressed in Hong Kong dollars)

14. GOODWILL (Continued)

In 2004, goodwill was amortized on a straight-line basis over 25 years i.e. the remaining joint venture period of Shakou JV as at the date of acquisition.

As explained further in note 2(c), with effect from 1 January 2005 the Group no longer amortizes goodwill. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortization of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill as at that date.

Goodwill is allocated to the fixed assets of Shakou JV in the PRC. The impairment loss recognized during the year solely relates to Shakou JV as the continuing increase in fuel oil price caused the decrease of recoverable amount of goodwill and the related fixed assets. Based on the assessment, the carrying amount of the goodwill and fixed assets were written down by $578.3 million and $120.3 million respectively. The estimates of recoverable amount was based on the value in use determined using cash flow projections based on financial forecast approved by management covering the remaining useful lives of power generating facilities in Shakou JV discounted at a rate of approximately 7%.

15. INVESTMENTS IN SUBSIDIARIES

The Company

	2005	2004
	$'000	$'000
Unlisted shares, at cost	**1,338,500**	1,338,500
Less: impairment loss	**(702,691)**	–
	635,809	1,338,500

The following list contains the particulars of subsidiaries of the Group.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group accounts.

(Expressed in Hong Kong dollars)

15. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Hensil Worldwide Inc.	British Virgin Islands	Ordinary US$2	100%	–	Investment holding
Lipromate Limited	Hong Kong	Ordinary $2	100%	–	Provision of financial and management services to the Group
Foshan Shakou Power Plant Co., Ltd.	The PRC	US$85,000,000 (Note)	–	80%	Generation and sale of electricity

Note: This represents the registered and paid up capital of Shakou JV, a sino-foreign equity joint venture established in Foshan City, the PRC. Pursuant to an approval document issued by the Guangdong Province Foreign Trade and Economic Commission dated 14 March 1997, the joint venture period was extended to 30 years expiring on 16 April 2023.

16. CONSUMABLES

The Group

	2005	2004
	$'000	$'000
Fuel oil	**6,334**	343
Components and replacement parts	**19,025**	17,802
	25,359	18,145

(Expressed in Hong Kong dollars)

17. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Trade receivables	**79,106**	172,404	–	–
Other receivables	**22,640**	7,391	**278**	172
	101,746	179,795	**278**	172

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

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Current	**79,106**	103,574	**–**	–
1 to 3 months overdue	**–**	68,830	**–**	–
	79,106	172,404	**–**	–

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.

18. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	2005	2004
	$'000	$'000
Provision for PRC enterprise income tax for the year	**–**	–
Amount paid during the year	**–**	(25)
	–	(25)
Balance of income tax relating to prior years	**(25)**	–
Tax recoverable	**(25)**	(25)

(Expressed in Hong Kong dollars)

18. 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 year are as follows:

Deferred tax arising from:

	Tax losses	Depreciation in excess of related depreciation in allowance	Impairment loss in respect of fixed assets	Total
	$'000	$'000	$'000	$'000
At 1 January 2004	–	5,215	–	5,215
Credited to consolidated profit and loss account	5,341	2,300	–	7,641
At 31 December 2004	5,341	7,515	–	12,856
At 1 January 2005	5,341	7,515	–	12,856
Exchange adjustments	436	238	–	674
(Charged)/credited to consolidated profit and loss account (note 7(a))	(5,777)	2,310	21,662	18,195
At 31 December 2005	–	10,063	21,662	31,725

(c) Deferred tax assets have not been recognized in respect of tax losses of $160,605,000 (2004: $17,712,000) as it is not probable that future taxable profits will be available against which the assets can be utilized.

19. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Deposits with banks	**15,498**	20,167	**15,498**	20,167
Cash at bank and in hand	**116,842**	78,091	**4**	860
	132,340	98,258	**15,502**	21,027

(Expressed in Hong Kong dollars)

20. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Creditors and accrued charges	**10,756**	16,732	**873**	835
Amounts due to related companies	**124,825**	115,367	**–**	–
	135,581	132,099	**873**	835

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Due within 1 month or on demand	**123,258**	108,207	**–**	–

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

The amounts due to related companies are unsecured and interest free.

21. PROVISION FOR STAFF WELFARE

The Group

	$'000
At 1 January 2005	1,241
Amount utilized	(984)
At 31 December 2005	257

In accordance with the articles of association of the PRC subsidiary, the PRC subsidiary is required to transfer part of the profit after taxation to the staff welfare fund. The transfer amount is determined by the subsidiary's board of directors in accordance with the joint venture agreement and the transfer is made before profit distribution to the joint venture partners. No transfer was made for year 2005 as the PRC subsidiary suffered a loss.

(Expressed in Hong Kong dollars)

22. BANK LOANS – SECURED

At 31 December 2005, the Group's bank loans were repayable as follows:

	2005	2004
	$'000	$'000
Within 1 year	**28,846**	46,790
After 1 year but within 2 years	**51,923**	28,074
After 2 years but within 5 years	**48,077**	50,533
	100,000	78,607
	128,846	125,397

The banking facilities of the PRC subsidiary are secured by charges over its power generating facilities with an aggregate carrying value of $1,066,173,000 (31 December 2004: $1,120,703,000) at 31 December 2005. Such banking facilities amounted to $201,923,000 (2004: $196,519,000), out of which $128,846,000 (2004: $125,397,000) were drawn down at 31 December 2005. The bank loans are denominated in Renminbi bearing floating interest rates ranging from 4.941% to 5.184% per annum as at 31 December 2005 (31 December 2004: from 4.779% to 4.941% per annum).

23. OTHER LOANS – UNSECURED

The Group

At 31 December 2005, the Group's other loans were repayable as follows:

	2005	2004
	$'000	$'000
Within 1 year	**–**	93,679
After 1 year but within 2 years	**136,503**	127,597
After 2 years but within 5 years	**160,481**	67,760
	296,984	195,357
	296,984	289,036

The loans are denominated in Renminbi. The loans amounting to $161.02 million are interest-bearing at a fixed rate of 5.76% per annum and the remaining balances are interest free (2004: loans amounting $223.16 millions are interest-bearing at a fixed rate of 5.76% per annum and the remaining balances are interest free). These loans are due to Power Construction Corporation and its associate.

(Expressed in Hong Kong dollars)

24. CAPITAL AND RESERVES

(a) The Group

	Share capital (Note c) $'000	Share premium (Note d) $'000	Capital redemption reserve (Note d) $'000	Exchange reserve (Note e) $'000	Reserve fund (Note f) $'000	Enterprise development fund (Note f) $'000	Retained profits/ (accumulated losses) $'000	Total equity attributable to equity shareholders of the Company $'000	Minority interests $'000	Total equity $'000
At 1 January 2004	82,902	1,041,444	297	–	23,481	23,481	288,844	1,460,449	208,417	1,668,866
Loss for the year	–	–	–	–	–	–	(55,857)	(55,857)	(4,614)	(60,471)
Dividends approved for equity shareholders of the Company	–	–	–	–	–	–	(12,452)	(12,452)	–	(12,452)
Dividends paid to minority equity shareholder of subsidiaries	–	–	–	–	–	–	–	–	(2,253)	(2,253)
Shares issued under share option scheme	113	282	–	–	–	–	–	395	–	395
At 31 December 2004	83,015	1,041,726	297	–	23,481	23,481	220,535	1,392,535	201,550	1,594,085
At 1 January 2005	83,015	1,041,726	297	–	23,481	23,481	220,535	1,392,535	201,550	1,594,085
Loss for the year	–	–	–	–	–	–	(762,579)	(762,579)	(44,584)	(807,163)
Dividends paid to minority equity shareholder of subsidiaries	–	–	–	–	–	–	–	–	(3,182)	(3,182)
Exchange differences on translation of accounts of a PRC subsidiary	–	–	–	20,729	–	–	–	20,729	5,190	25,919
At 31 December 2005	83,015	1,041,726	297	20,729	23,481	23,481	(542,044)	650,685	158,974	809,659

(Expressed in Hong Kong dollars)

24. CAPITAL AND RESERVES (Continued)

(b) The Company

	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Retained profits/ (accumulated losses) $'000	Total $'000
At 1 January 2004	82,902	1,041,444	297	237,313	1,361,956
Profit for the year	–	–	–	14,257	14,257
Dividends approved (Note 10)	–	–	–	(12,452)	(12,452)
Shares issued under share option scheme	113	282	–	–	395
At 31 December 2004	83,015	1,041,726	297	239,118	1,364,156
At 1 January 2005	83,015	1,041,726	297	239,118	1,364,156
Loss for the year	–	–	–	(713,471)	(713,471)
At 31 December 2005	83,015	1,041,726	297	(474,353)	650,685

(c) Share capital

	2005		2004	
	Number of shares '000	**Nominal value $'000**	Number of shares '000	Nominal value $'000
Authorized				
Share of $0.10 each	**1,100,000**	**110,000**	1,100,000	110,000
Issued and fully paid:				
At 1 January	**830,146**	**83,015**	829,018	82,902
Share issued under share option scheme	**–**	**–**	1,128	113
At 31 December	**830,146**	**83,015**	830,146	83,015

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(Expressed in Hong Kong dollars)

24. CAPITAL AND RESERVES (Continued)

(d) Share premium and capital redemption reserve

The application of the share premium account and capital redemption reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(p).

(f) Reserve fund and enterprise development fund

In accordance with the accounting principles and financial regulations applicable in the PRC, the PRC subsidiary is required to transfer part of its profit after taxation to the reserve fund and the enterprise development fund. The transfer amounts are determined by the subsidiary's board of directors in accordance with the articles of association and the transfer are made before profit distribution to the joint-venture partners. Reserve fund can only be used to make good losses, if any, and for increasing capital. Enterprise development fund can only be used for increasing capital.

(g) Distributability of reserves

At 31 December 2005, the aggregate amount of reserves available for distribution to equity shareholders of the Company was nil (2004: $239,118,000).

25. EMPLOYEES RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employee's relevant income, subject to a cap of monthly relevant income of $20,000. Apart from the mandatory contributions, the employer would make monthly voluntary contributions, which is the excess of 5%, or 10% for employees working over ten years, of the basic salary over the mandatory contribution. Mandatory contribution to the plan vest immediately. Where there are employees who leave the Group prior to vesting fully in the voluntary contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees in the Group's PRC subsidiary are members of the stated-managed retirement scheme. The PRC subsidiary is required to contribute a specified percentage of the payroll to the scheme. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

(Expressed in Hong Kong dollars)

26. EQUITY SETTLED SHARE-BASED TRANSACTIONS

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 at 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 proceeding 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 ordinary share in the Company.

(a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

Date granted	**Exercise period**	**Exercise Price**	**2005 '000**
25 July 2002	25 January 2003 to 24 January 2008	$0.35	**828**
30 July 2002	30 January 2003 to 29 January 2008	$0.35	**11,900**
19 May 2003	22 November 2003 to 21 November 2008	$0.415	**1,500**
			14,228

All the above share options are granted to the directors.

(b) The number and weighted average exercise prices of share options are as follows:

	2005		2004	
	Weighted average exercise price	**Number of shares '000**	Weighted average exercise price	Number of shares '000
At 1 January	**$0.36**	**14,228**	$0.36	15,356
Exercised	**–**	**–**	$0.35	(1,128)
Lapsed and cancelled	**$0.35**	**(3,900)**	–	–
At 31 December	**$0.36**	**10,328**	$0.36	14,228
Options vested at 31 December	**$0.36**	**10,328**	$0.36	14,228

(Expressed in Hong Kong dollars)

26. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(c) No share option was exercised during the year.

Details of share option exercised during last year:

Exercised date	Exercise price	Market value per share at exercise date	Proceeds 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
			395	1,128

27. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2005 not provided for in the accounts were as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Contracted for	**51,187**	–	**–**	–

On 23 August 2005, Shakou JV placed purchase orders with an independent third party supplier to provide certain spare parts for the routine large-scale inspection and overhaul of its power plant.

(b) At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Within 1 year	**25**	275	**–**	–

(Expressed in Hong Kong dollars)

28. 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, 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.

29. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

Guangdong Power Grid Company, the provincial grid company is the sole purchaser of electricity supplied by the Group.

The details of sale and receivables from sale of electricity are as follows:

	2005	2004
	$'000	$'000
Sale of electricity	**824,038**	740,724
Receivables from sale of electricity	**79,106**	172,404

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the shorter and longer term.

(Expressed in Hong Kong dollars)

29. FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk

The interest rates and terms of repayment of the outstanding loans of the Group are disclosed in note 22 and 23.

(d) Foreign currency risk

Individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as the principal subsidiary, Shakou JV, mainly carried out transactions in Renminbi, therefore any appreciation or depreciation of Hong Kong dollars against Renminbi will affect the Group's financial position.

(e) Fair values

The Group has not developed an internal valuation model necessary to make the estimate of the fair value of other loans from related parties as it is not considered practicable to estimate their fair value because of the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive based on the terms of the borrowings.

All other financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005 and 2004.

(Expressed in Hong Kong dollars)

30. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the accounts. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the accounts. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the accounts.

(a) Impairment for long-lived assets

If circumstances indicate that the net book value of a long-lived asset, except in the case of goodwill, may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognized in accordance with HKAS 36 "Impairment of assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the recoverable amount is estimated annually to assess if the carrying amounts may not be recoverable whether or not there is any indication of impairment. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, tariff, fuel cost and amount of other operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, tariff, fuel cost and amount of other operating costs.

(Expressed in Hong Kong dollars)

30. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account upgrading and improvement work performed, anticipated technological changes, and legal or similar limits on the use of assets. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, credit-worthiness of the debtors, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

31. COMPARATIVE FIGURES

Certain comparative figures have been re-classified as a result of the changes in accounting policies. Further details are disclosed in note 2.

(Expressed in Hong Kong dollars)

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these accounts.

Of these developments, the following relate to matters that may be relevant to the Group's operations and accounts:

	Effective for accounting periods beginning on or after
HK(IFRIC) 4, Determining whether an arrangement contains a lease	1 January 2006
Amendments to HKAS19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosure	1 January 2006
Amendments to HKAS 39, Financial instruments:	
Recognition and measurement:	
– The fair value option	1 January 2006
– Financial guarantee contracts	1 January 2006
HKFRS 7, Financial instruments: disclosure	1 January 2007
Amendments to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's accounts for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.