

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

(Expressed in Hong Kong dollars)

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. In the opinion of the directors of the Company, the ultimate holding company is Asia Pacific Promotion Limited, an international business company incorporated in the British Virgin Island (the "BVI").

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in note 35 to the financial statements.

2. 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 ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein 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 position to determine whether these HKFRSs would have a significant impact on how its results operations and financial position are prepared and presented. These HKFRSs may result in changes in future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of other investments and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December 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 up to the effective dates of disposal, as appropriate.

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

Goodwill

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

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

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

Investments in subsidiaries

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



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3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates

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

Revenue recognition

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

Sales of securities are recognised when the sale agreement becomes unconditional.

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

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

Property, plant and equipment

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

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

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

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

Construction in progress

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

Impairment

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

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3. SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment - continued

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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.

Investments in securities

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

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

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

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

Inventories

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

Borrowing costs

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

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

Taxation

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

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

(Expressed in Hong Kong dollars)

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

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

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

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

Operating leases

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

Commodity derivatives

The Group is engaged in activities using derivatives related to fuel oil prices; these activities are not formally designated as hedges, and, as such, are accounted for as financial instruments held-for-trading.

Derivatives are initially measured at cost including associated transaction costs. Subsequently, these instruments are remeasured to their fair value.

Commodity derivative contracts are marked-to-market at each balance sheet date, and any changes in their fair values are included in gains or losses on derivative financial instruments.

Foreign currencies

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

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

Retirement benefits scheme

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

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4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is organised into two operating divisions - electricity supplies and investment holding. These divisions are the basis on which the Group reports its primary segment information. The Group was organised into three operating divisions - electricity supplies, investment holding and property leasing in prior years. The property leasing business was ceased during the year ended 31 December 2003 upon the disposal of the investment property. Therefore, the Group currently has two reportable divisions.

Segment information about these businesses is presented below.

Year ended 31 December 2004

	Electricity supplies HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
TURNOVER	846,613	9,818	856,431
RESULT			
Segment result	148,753	4,004	152,757
Finance costs			(24,548)
Interest income			6,445
Unallocated corporate expenses			(13,825)
Profit before taxation			120,829
Taxation			—
Profit before minority interests			120,829

Year ended 31 December 2003

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

(Expressed in Hong Kong dollars)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

Business segments - continued

Balance sheet

	Electricity supplies HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
At 31 December 2004			
ASSETS			
Segment assets	2,083,138	141,871	2,225,009
Unallocated corporate assets			688,793
Consolidated total assets			<u>2,913,802</u>
LIABILITIES			
Segment liabilities	(142,532)	—	(142,532)
Borrowings	(1,305,665)	—	(1,305,665)
Unallocated corporate liabilities			(15,300)
Consolidated total liabilities			<u>(1,463,497)</u>
OTHER INFORMATION			
Capital additions	682,506	2,247	684,753
Depreciation and amortisation	64,325	196	64,521
At 31 December 2003			
ASSETS			
Segment assets	902,452	288,181	1,190,633
Unallocated corporate assets			227,187
Consolidated total assets			<u>1,417,820</u>
LIABILITIES			
Segment liabilities	(110,659)	—	(110,659)
Borrowings	(485,501)	(75,000)	(560,501)
Unallocated corporate liabilities			(18,709)
Consolidated total liabilities			<u>(689,869)</u>
OTHER INFORMATION			
Capital additions	105,333	14	105,347
Depreciation and amortisation	44,802	11,359	56,161

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

(Expressed in Hong Kong dollars)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

Geographical segments

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

	Turnover by geographical market	
	2004 HK\$'000	2003 HK\$'000
The People's Republic of China ("PRC")	846,613	559,797
Hong Kong	9,818	—
	<u>856,431</u>	<u>559,797</u>

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

	Carrying amount of segment assets		Capital additions	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
PRC	2,083,138	985,642	682,506	105,333
Hong Kong	830,664	432,178	2,247	14
	<u>2,913,802</u>	<u>1,417,820</u>	<u>684,753</u>	<u>105,347</u>

5. OTHER INCOME

	2004 HK\$'000	2003 HK\$'000
Other income includes the following income:		
Management fee income (note)	—	5,540
Interest income on bank deposit	6,445	575
Unrealised gain on other investments	3,986	—
Unrealised gain on commodity derivatives	907	—
Others	2,787	836
	<u>14,125</u>	<u>6,951</u>

Note: Details of the management fee income are set out in note 33(c).



NOTES TO THE FINANCIAL STATEMENTS

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6. OTHER OPERATING EXPENSES

	2004 HK\$'000	2003 HK\$'000
Other operating expenses comprise:		
Amortisation of goodwill	11,182	11,181
Loss on disposal of property, plant and equipment	12	252
Impairment loss of investment in listed securities	635	—
Others	2,456	83
	<u>14,285</u>	<u>11,516</u>

7. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	529	474
Depreciation and amortisation	53,339	44,980
Minimum lease payment under operating lease in respect of rented premises	4,940	4,940
Staff costs:		
Retirement benefits scheme contributions	224	138
Staff costs (including Directors' remuneration)	<u>20,371</u>	<u>15,043</u>
Total staff costs	20,595	15,181
Cost of inventories recognised as an expense	<u>585,163</u>	<u>355,118</u>

NOTES TO THE FINANCIAL STATEMENTS

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8. DIRECTORS' AND EMPLOYEES' REMUNERATION

The emoluments paid or payable to each of the 10 (2003: 9) directors were as follows:

	Sun Qiang Chang	Ou Yaping	Xiang Ya Bo	Tang Yui Man	Leng Xuesong	Xu Xinghai	Xin Luo Lin	Lu Yungang	Davin A. MacKenzie	Lu Zhi Fang	Total 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	—	—	—	—	—	—	150	90	57	112	409
Other emoluments											
Salaries and other benefits	—	890	2,697	1,185	—	664	—	—	—	—	5,436
Contributions to retirement benefits schemes	—	12	134	12	—	13	—	—	—	—	171
Total emoluments	—	902	2,831	1,197	—	677	150	90	57	112	6,016
	Sun Qiang Chang	Ou Yaping	Xiang Ya Bo	Tang Yui Man	Leng Xuesong	Xu Xinghai	Xu Junyuan	Gu Luo Lin	Xin Luo Lin	Lu Zhi Fang	Total 2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	—	—	—	—	—	—	—	—	150	150	300
Other emoluments											
Salaries and other benefits	—	—	124	1,563	325	—	358	—	—	—	2,370
Contributions to retirement benefits schemes	—	—	3	75	12	—	—	—	—	—	90
Total emoluments	—	127	1,638	337	—	358	—	—	150	150	2,760

The five individuals with the highest emoluments in the Group included three executive directors (2003: three executive directors) and two (2003: two) employees of the Group. Details of the remuneration of the two employees are set out as follows:

	2004 HK\$'000	2003 HK\$'000
Employees		
Salaries and other benefits	1,720	823
Retirement benefits scheme contributions	72	28
	1,792	851

Their emoluments are within the following band:

	2004 Number of employees	2003 Number of employees
HK\$nil to HK\$1,000,000	2	2

During the year ended 31 December 2004, no remuneration was 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 compensation for loss of office. None of the directors waived any emoluments during the year.



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9. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	41,961	14,924
Loan from a shareholder	152	4,456
	<u>42,113</u>	<u>19,380</u>
Interest on bank borrowings not wholly repayable within five years	1,557	3,378
	<u>1,557</u>	<u>3,378</u>
Total borrowing costs	43,670	22,758
Less: Amounts capitalised	19,122	4,374
	<u>24,548</u>	<u>18,384</u>

Borrowing costs capitalised during the year arising on borrowings are calculated by applying a capitalisation rate of 4.2% (2003: 4.2%) to expenditure on qualifying assets.

10. DISCONTINUED OPERATION

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

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

	1.1.2003 to date of disposal HK\$'000
Turnover	—
Operating costs	(10)
Finance costs	—
	<u>—</u>
Net loss for the period	<u>(10)</u>

During the year ended 31 December 2003, the property leasing operation contributed an outflow of HK\$10,000 to the Group's net operation cash flows, received HK\$544,000 in respect of investing activities and had no cash flows in respect of financing activities.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars)

11. TAXATION

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Taxation attributable to the Group		
Current tax:		
PRC income tax	—	(8,899)

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

During the year, the share capital of Shenzhen Fuhuade Electric Power Company Limited ("Fuhuade"), a subsidiary of the Company, was increased from RMB100,000,000 to RMB224,500,000. As a result of the increase and pursuant to the tax notice of Cai Shui (2002) No. 56 issued by the Ministry of Finance, subject to examination by the relevant tax authority, the profit generated from the newly injected investment of Fuhuade should be entitled to a tax holiday for PRC Foreign Enterprise Income Tax ("FEIT"), as if it were a new company. The tax holiday should consist of the exemption from FEIT for two years, followed by a 50% relief from FEIT for the subsequent three years. In 2004, an approval was issued by the local tax authority to endorse the exemption of FEIT regarding the profit generated from the new investment injected in 2004. Accordingly, no provision for FEIT of Fuhuade is made for the year ended 31 December 2004.

According to the approval issued by the local tax authority in 1999, Fuhuade's original investment was entitled to an eight years tax holiday, with two year FEIT exemption and 50% reduction for the following six years. FEIT in 2003 was provided at 7.5% (50% reduction rate).

In 2004, when the approval was issued by the local tax authority for the exemption of FEIT regarding the profit generated from the new investment injected in 2004, additionally it also stated that the FEIT for 2003. Whether the 2003 projects are exempt from FEIT remains uncertain, since it is unclear that the Fuhuade has fully complied with the Central Government's regulations, Cai Shui (2002) No. 56). This issue will be reconsidered once the local tax authorities have completed their inspection.

Details of deferred taxation are set out in note 27.

The taxation for the year can be reconciled to the profit per income statement as follows:

	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	120,829	98,116
Tax charge at domestic income tax rate of 17.5% (2003: 17.5%)	(21,145)	(17,170)
Tax effect of expenses not deductible for tax purpose	(1,956)	(1,965)
Overprovision in respect of prior year	—	—
Tax effect of income that is not taxable in determining taxable profit	—	87
Tax losses not recognised	(711)	(1,244)
Effect of tax exemption granted to a PRC subsidiary	23,640	11,297
Effect of different tax rate of a subsidiary operating in the PRC	—	72
Utilisation of tax losses previously not recognised	—	24
Others	172	—
Taxation for the year	—	(8,899)



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12. 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
Earnings		
Net profit for the purposes of basic and diluted earnings per share	80,229	57,466
	Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,017,319,943	518,370,157
Effect of dilutive shares option	7,963,835	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	2,025,283,778	518,370,157

The prior year's weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the open offer during the year.

No diluted earnings per share has been calculated for the prior year as the exercise price of the company's share options was higher than the average market price for the shares for 2003.

13. DIVIDEND

The final dividend of HK\$3.5 cents (2003: nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting and the share premium reduction.

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14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1 January 2004	100,670	—	1,698	517,099	3,353	62,417	685,237
Additions	—	1,031	888	36,787	1,522	644,525	684,753
Transfer from construction in progress	27,181	—	—	432,174	—	(459,355)	—
Disposal	—	—	(3)	—	(473)	—	(476)
At 31 December 2004	127,851	1,031	2,583	986,060	4,402	247,587	1,369,514
DEPRECIATION							
At 1 January 2004	6,353	—	403	48,312	1,176	—	56,244
Provided for the year	5,525	86	215	46,847	666	—	53,339
Eliminated on disposal	—	—	(3)	—	—	—	(3)
At 31 December 2004	11,878	86	615	95,159	1,842	—	109,580
NET BOOK VALUES							
At 31 December 2004	115,973	945	1,968	890,901	2,560	247,587	1,259,934
At 31 December 2003	94,317	—	1,295	468,787	2,177	62,417	628,993

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

Included in construction in progress is net interest capitalised of approximately HK\$23,496,000 (2003: HK\$4,374,000).

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	435,400	435,400
Less: Impairment losses recognised	(161,398)	(161,398)
	274,002	274,002
Amounts due from subsidiaries	699,629	584,969
Allowance for amounts due from subsidiaries	(415,855)	(415,855)
	283,774	169,114
	557,776	443,116

Details of the principal subsidiaries of the Company as at 31 December 2004 are set out in note 35.

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, the Company would not demand repayment from the subsidiaries and the amounts are classified as non-current accordingly.



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16. GOODWILL

	THE GROUP HK\$'000
COST	
At 1 January 2003	148,628
Adjustment to purchase consideration	75,000
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At 1 January 2004 and at 31 December 2004	223,628
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AMORTISATION	
At 1 January 2003	7,454
Provided for the year	11,181
	<hr/>
At 1 January 2004	18,635
Provided for the year	11,182
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At 31 December 2004	29,817
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NET BOOK VALUES	
At 31 December 2004	193,811
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At 31 December 2003	204,993
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The goodwill represents principally the premium arising on the acquisition of subsidiaries and is amortised over a period of twenty years.

Details of the adjustment to purchase consideration are set out in note 33(a).

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17. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Investment securities, at cost:		
Unlisted shares	83,188	83,188
Club debentures	1,486	1,486
	<u>84,674</u>	<u>84,674</u>
Other investments, at market value		
Listed shares	6,464	—
Managed funds	42,986	—
	<u>49,450</u>	<u>—</u>
	<u>134,124</u>	<u>84,674</u>
Carrying amount analysed for reporting purposes as:		
Current	49,450	—
Non-current	84,674	84,674
	<u>134,124</u>	<u>84,674</u>

18. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials and consumables, at cost	<u>62,367</u>	<u>38,700</u>



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19. TRADE AND OTHER RECEIVABLES

An analysis of the balance of trade and other receivables is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Trade debtors	147,420	76,879
Other receivables, deposits and prepayments	40,929	17,405
	<u>188,349</u>	<u>94,284</u>

The following is an aged analysis of the trade debtors at 31 December 2004:

	2004 HK\$'000	2003 HK\$'000
0 - 60 days	<u>147,420</u>	<u>76,879</u>

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

20. AMOUNT DUE FROM A SHAREHOLDER, AMOUNT DUE FROM AN ASSOCIATE, AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY, AMOUNT DUE TO A SHAREHOLDER AND LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

THE GROUP AND THE COMPANY

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

21. LOAN FROM A SHAREHOLDER

THE GROUP AND THE COMPANY

The loan was secured by shares of the Sinolink Electric Power Company Limited and Sinolink Industrial Limited, subsidiaries of the Company and fully settled during the year.

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22. TRADE AND OTHER PAYABLES

An analysis of the balance of trade and other payables is as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Trade creditors	59,218	24,650
Other creditors and accrued charges	74,468	67,219
	<u>133,686</u>	<u>91,869</u>

The following is an aged analysis of the trade creditors at 31 December 2004:

	2004	2003
	HK\$'000	HK\$'000
0 - 60 days	59,218	22,882
Over 180 days	—	1,768
	<u>59,218</u>	<u>24,650</u>

23. BANK BORROWINGS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Bank borrowings comprise the following:		
Bank loans	<u>1,305,665</u>	<u>485,501</u>
The bank borrowings are repayable as follows:		
Within one year	364,166	147,821
More than one year, but not exceeding two years	250,447	71,581
More than two years, but not exceeding five years	650,734	242,806
More than five years	<u>40,318</u>	<u>23,293</u>
	1,305,665	485,501
Less: Amount due within one year shown under current liabilities	<u>(364,166)</u>	<u>(147,821)</u>
	<u>941,499</u>	<u>337,680</u>
Secured	337,680	408,878
Unsecured	<u>967,985</u>	<u>76,623</u>
	<u>1,305,665</u>	<u>485,501</u>



NOTES TO THE FINANCIAL STATEMENTS

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23. BANK BORROWINGS - continued

During the year, the Group obtained and renewed the terms of certain bank borrowings with certain banks. At the balance sheet date, an aggregate amount of RMB190,000,000 (equivalent to approximately HK\$178,000,000) and US\$20,600,000 (equivalent to approximately HK\$161,000,000) were secured by the plant and machinery of the Group with a carrying value of HK\$320,594,000 (2003: HK\$472,186,000).

24. SHARE CAPITAL

	Number of shares		Share capital	
	2004	2003	2004 HK\$'000	2003 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning of year	2,500,000,000	30,000,000,000	25,000	300,000
Increase in authorised share capital (note a and d)	2,500,000,000	1,750,000,000	25,000	17,500
Capital reduction (note c)	—	(29,250,000,000)	—	(292,500)
At end of year	<u>5,000,000,000</u>	<u>2,500,000,000</u>	<u>50,000</u>	<u>25,000</u>
Issued and fully paid:				
At beginning of year	762,762,968	3,632,245,567	7,628	36,322
Open offer (note a)	1,525,525,936	—	15,255	—
Exercise of share options	2,645,000	—	26	—
Rights issue (note b)	—	5,448,368,349	—	54,484
Share consolidation and reduction (note c)	—	(8,853,598,569)	—	(88,535)
Shares subscription (note e)	—	45,400,000	—	454
Rights issue (note f)	—	490,347,621	—	4,903
At end of year	<u>2,290,933,904</u>	<u>762,762,968</u>	<u>22,909</u>	<u>7,628</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

(Expressed in Hong Kong dollars)

24. SHARE CAPITAL - continued

Notes:

- (a) Pursuant to a resolution passed at the special general meeting held on 29 March 2004, the share capital of the Company was changed as follows:
- The authorised share capital of the Company was hereby increased from HK\$25,000,000 to HK\$50,000,000 by the creation of 2,500,000,000 additional ordinary shares of HK\$0.01 each.
 - The issue by way of an open offer of 1,525,525,936 new ordinary shares of HK\$0.01 each of the Company at HK\$0.4 per share on the basis of two offering shares for every existing share held.
- (b) Pursuant to an ordinary resolution passed on a special general meeting held on 10 February 2003, the Company issued 5,448,368,349 rights shares of HK\$0.01 each at HK\$0.02 per rights share in proportion of three rights shares for every two existing shares held.
- (c) Pursuant to the resolutions passed on a special general meeting held on 22 April 2003. The share capital of the Company was changed as follows:
- The ordinary shares of the Company in their consolidated form, every forty issued and unissued shares of HK\$0.01 each in the capital of the Company, were consolidated into one share of HK\$0.40 ("Consolidated Shares") in the capital of the Company;
 - The authorised share capital of the Company was reduced from HK\$300,000,000 divided into 750,000,000 Consolidated Shares to HK\$7,500,000 divided into 750,000,000 ordinary shares of HK\$0.01 each and that such reduction was effected by (i) reducing the issued share capital of the Company from HK\$90,806,000 to HK\$2,270,000 by cancelling paid up share capital to the extent of HK\$0.39 on each Consolidated Shares in issue; and (ii) by reducing the nominal value of each issued and unissued Consolidated Shares from HK\$0.40 to HK\$0.01;
 - The credit of HK\$88,535,000 arising from the reduction of issued capital of the Company was transferred to the contributed surplus.
- (d) Pursuant to an ordinary resolution passed at the special general meeting held on 4 December 2003, the authorised share capital of the Company was increased from HK\$7,500,000 to HK\$25,000,000 by the creation of an additional 1,750,000,000 ordinary shares of HK\$0.01 each.
- (e) Pursuant to a subscription agreement entered into between the Company and Sinolink on 26 September 2003, Sinolink subscribed 45,400,000 shares of the Company of HK\$0.01 each at a price of HK\$0.60 per share.
- (f) Pursuant to an ordinary resolution passed on a special general meeting held on 4 December 2003, the Company issued 490,347,621 rights shares of HK\$0.01 each at HK\$0.4 per rights share in proportion of nine rights shares for every five existing shares held.



NOTES TO THE FINANCIAL STATEMENTS

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25. SHARE OPTION SCHEMES

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

Pursuant to an ordinary resolution passed on the special general meeting held on 24 May 2002, the 1993 Scheme was terminated and a new share option scheme of the Company (the "2002 Scheme") has been approved which will remain in force for a period of ten years. The board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

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

94,350,000 options were granted under the 2002 Scheme during the year. The following tables disclose details of the Company's share options held by employees (including directors) and movements in such holdings during the year:

Option scheme	Outstanding at 1.1.2004	Granted during year	Exercised during year	Lapsed during year (Note 1)	Adjustment (Note 2)	Outstanding at 12.31.2004 (Note 3)
1993 Scheme	9,044,000	—	(357,000)	(525,000)	18,088,000	26,250,000
2002 Scheme	—	94,350,000	(2,288,000)	(3,250,000)	—	88,812,000
Total	9,044,000	94,350,000	(2,645,000)	(3,775,000)	18,088,000	115,062,000

Option scheme	Outstanding at 1.1.2003	Granted during year	Exercised during year	Lapsed during year	Adjustment	Outstanding at 12.31.2003 (Note 3)
1993 Scheme	51,680,000	—	—	—	(42,636,000)	9,044,000
2002 Scheme	—	—	—	—	—	—
Total	51,680,000	—	—	—	(42,636,000)	9,044,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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25. SHARE OPTION SCHEMES - continued

Details of the share options under 1993 Scheme and 2002 Scheme held by the directors included in the above table are as follows:

	Outstanding at 1 January	Granted during year	Exercised during year	Retired during year	Adjustment (Note 2)	Outstanding at 31 December
Year 2004						
2002 Scheme	—	64,200,000	—	(2,288,000)	—	61,912,000
1993 Scheme	8,750,000	—	—	—	17,500,000	26,250,000
	<u>8,750,000</u>	<u>64,200,000</u>	<u>—</u>	<u>(2,288,000)</u>	<u>17,500,000</u>	<u>88,162,000</u>
Year 2003						
1993 Scheme	<u>50,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(41,250,000)</u>	<u>8,750,000</u>

Notes:

- (1) Lapsed arising on the resignation of employees (including directors) during the year.
- (2) As adjusted for open offer during the year and rights issue and share consolidation in prior year.
- (3) Details of specific categories of options are as follows:

Option scheme	Date of grant	Exercise period	Exercise price HK\$	Number of options 2004	2003
2002 Scheme	9.6.2004	9.6.2004 - 8.6.2014	0.44	55,336,000	—
	9.6.2004	9.6.2005 - 8.6.2014	0.44	11,921,313	—
	9.6.2004	9.6.2006 - 8.6.2014	0.44	9,633,313	—
	9.6.2004	9.12.2006 - 8.6.2014	0.44	9,633,374	—
	20.10.2004	20.10.2005 - 19.10.2015	0.50	2,288,000	—
1993 Scheme	24.5.2000	24.5.2000 - 23.5.2010	0.55	26,250,000	8,750,000
	26.6.2000	26.6.2000 - 25.6.2010	0.74	—	175,000
	26.3.2001	26.3.2001 - 25.3.2011	0.40	—	119,000
				<u>115,062,000</u>	<u>9,044,000</u>

Total consideration received during the year from employees and directors for taking up 94,350,000 options granted under 2002 Scheme amounted to HK\$58. No consideration was received during the year ended 31 December 2003 as no option was granted under 1993 Schemes.

The market price of the shares of the Company on the dates of exercise of the share options during the year was at HK\$0.40 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 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 share 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

(Expressed in Hong Kong dollars)

26. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
At 1 January 2003	388,075	370,755	(535,376)	223,454
Capital reduction	—	88,535	—	88,535
Premium on rights issues and share subscription	263,668	—	—	263,668
Utilisation of contribution surplus against accumulated losses	—	(415,438)	415,438	—
Net loss for the year	—	—	(3,766)	(3,766)
At 1 January 2004	651,743	43,852	(123,704)	571,891
Premium on open offer	585,121	—	—	585,121
Exercise of share options	1,123	—	—	1,123
Net loss for the year	—	—	(5,752)	(5,752)
At 31 December 2004	<u>1,237,987</u>	<u>43,852</u>	<u>(129,456)</u>	<u>1,152,383</u>

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

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

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

The Company did not have any distributable reserves as at 31 December 2004 and 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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27. DEFERRED TAXATION

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

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2003	934	(934)	—
Charge (credit) for the year	559	(559)	—
At 1 January 2004	1,493	(1,493)	—
(Credit) charge for the year	(177)	177	—
At 31 December 2004	1,316	1,316	—

No provision for deferred taxation has been made in the financial statements in respect of the estimated tax losses of approximately HK\$23,469,000 (2003: HK\$19,406,000) available to offset the future assessable profit as it is not certain that the assessable profits will be available against which deductible temporary difference can be utilised.

28. PLEDGE OF ASSETS

THE GROUP	
2004	2003
HK\$'000	HK\$'000

To secure the general banking facilities granted to the Group:

Bank deposits	72,467	13,861
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The shares in Sinolink Industrial Limited and Sinolink Electric Power Company Limited are pledged to Sinolink to secure a loan from Sinolink of nil (2003: HK\$75,000,000).

Details of pledge of assets in respect of bank borrowings are set out in note 23.

29. CONTINGENT LIABILITIES

THE GROUP

In August 2003, a supplier filed an application of arbitration against Fuhuade in respect of a claim for extra contract sum due to the additional work involved during the installation of the new generating units. The extra contract sum claimed, together with interest thereon, amounts approximately HK\$28,015,000. Fuhuade has instructed a firm of lawyers to act on its behalf in respect of the arbitration. In the opinion of the directors, as the arbitration is in progress and the outcome of this cannot be ascertained at this moment, no provision for the amount claimed has been made by the Group as at 31 December 2004 and 2003.



NOTES TO THE FINANCIAL STATEMENTS

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30. OPERATING LEASE ARRANGEMENT

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

	2004 HK\$'000	2003 HK\$'000
Within one year	4,940	4,940
In the second to fifth year inclusive	4,921	9,861
	<u>9,861</u>	<u>14,801</u>

The Company did not have any lease commitments at 31 December 2004 and 2003.

31. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>191,488</u>	<u>353,118</u>

32. RETIREMENT BENEFITS SCHEME

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

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The Group is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made.

NOTES TO THE FINANCIAL STATEMENTS

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33. RELATED PARTY TRANSACTIONS

Details of transactions with related parties for the year ended 31 December 2004 are as follows:

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

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

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

- (b) During the year, the Group paid interest expenses of approximately HK\$152,000 (2003: HK\$4,456,000) to Sinolink in respect of a shareholder loan. The loan was fully repaid during the year.
- (c) During the year ended 31 December 2004, the Group has not received nil management fee income (2003: HK\$5,540,000) from eGoChina Holdings Limited ("eGoChina"), an associate of the Group. The investment in eGoChina was fully impaired in previous year. The management fee was determined with reference to actual cost.
- (d) On 6 March 2003, Fuhuade entered into a loan agreement with a bank for an amount up to US\$25,000,000. The loan is repayable over a term of three years ("Term"). The Company provided a guarantee of 70% of the loan, amounting US\$17,500,000. The remaining 30% is guaranteed by Shenzhen Sinolink. The guarantee is for the period of the Term plus two years thereafter.

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

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

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

- (f) During the year ended 31 December 2004, the Group paid office expenses of HK\$855,000 (2003: HK\$788,000) to Sinolink. The office expense is determined with reference to actual costs incurred.

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

34. POST BALANCE SHEET EVENT

The Company entered into a sale and purchase agreement with a third party in respect of the disposal of the Company's entire interest in New China Control System Limited ("New China"), a wholly-owned subsidiary of the Company at a consideration of US\$23.5 million (approximately HK\$182,830,000) on 16 December 2004. The principal assets of New China is the investment in Xin Hua Control Engineering Company Limited, a sino-foreign equity joint venture established in the PRC. The disposal will be completed in April 2005.



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35. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries as at 31 December 2004 are as follows:

Name of subsidiary	Place of incorporation/ operation	Type of company	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
Alyo Limited	Hong Kong	Limited liability company	HK\$2	—	100	Inactive
Eastern Pith Investment Limited	Hong Kong	Limited liability company	HK\$100	—	100	Inactive
Hanka Limited	Hong Kong	Limited liability company	HK\$2	—	100	Holding of club membership
Peaceway Investment Limited	Hong Kong	Limited liability company	HK\$100	—	100	Dormant
Enerchina Resources Limited	Hong Kong	Limited liability company	HK\$2	100	—	Provision of management services
Enerchina Oil and Petrochemical Company Limited	BVI	Limited liability company	HK\$2	100	—	Procurement of fuel oil
Sinolike Investment Limited	Hong Kong	Limited liability company	HK\$2	—	100	Dormant
Xeno International Limited	Hong Kong	Limited liability company	HK\$2	—	100	Dormant
New China Control Systems Limited	BVI	Limited liability company	US\$1	100	—	Investment holding
Rado International Limited	BVI	Limited liability company	US\$1	100	—	Investment holding
Sinolink Industrial Limited	BVI	Limited liability company	US\$50,001	100	—	Investment holding
Sinolink Electric Power Company Limited	Hong Kong	Limited liability company	HK\$2 ordinary shares and \$100,000 non-voting deferred shares	—	100	Investment holding
Shenzhen Fuhuade Electric Power Co., Ltd.	PRC	Sino-foreign equity joint venture	RMB224,500,000	—	70	Electricity supplies
Roxy Link Limited	BVI	Limited liability Company	HK\$2	—	100	Investment

NOTES TO THE FINANCIAL STATEMENTS

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35. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES - continued

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

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

Details of the Group's principal associate as at 31 December 2004 is as follows:

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