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If you have sold or transferred all your shares in **Sinolink Worldwide Holdings Limited**, you should at once hand this circular to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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百仕達控股有限公司*

SINOLINK WORLDWIDE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1168)

MAJOR TRANSACTION

ACQUISITION OF SHARES IN ENERCHINA HOLDINGS LIMITED

BY

SMART ORIENT INVESTMENTS LIMITED

(A WHOLLY OWNED SUBSIDIARY OF

SINOLINK WORLDWIDE HOLDINGS LIMITED)

AND

UNCONDITIONAL MANDATORY GENERAL OFFERS

BY

Morgan Stanley

摩根士丹利

ON BEHALF OF

SINOLINK WORLDWIDE HOLDINGS LIMITED

TO ACQUIRE ALL THE ISSUED SHARES OF AND

FOR CANCELLATION OF ALL OUTSTANDING OPTIONS OF

ENERCHINA HOLDINGS LIMITED

(OTHER THAN THOSE SHARES HELD BY SINOLINK WORLDWIDE HOLDINGS LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

Financial Adviser to Sinolink Worldwide Holdings Limited

Morgan Stanley

摩根士丹利

Independent Financial Adviser to Sinolink Worldwide Holdings Limited

COMMERZBANK 

Commerzbank AG Hong Kong Branch

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the acquisition by Smart Orient from the Vendors of 298,642,000 Enerchina Shares on 3 December 2004
“Acquisition Consideration”	HK\$0.63 per Enerchina Share, being the consideration per share paid by the Company for the Acquisition
“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Announcement”	the joint announcement of the Company and Enerchina dated 6 December 2004 in relation to, among other things, the Offers
“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Closing Date”	18 January 2005, being the date stated in the Composite Document as the closing date of the Offers
“Commerzbank”	Commerzbank AG, a bank incorporated in Germany, acting through its Hong Kong Branch, which is an authorised institution registered with the Hong Kong Monetary Authority licensed to carry out types 1, 4 and 6 regulated activities (as set out in Schedule 5 of the SFO), the independent financial adviser to the Company in respect of the Offers
“Companies Ordinance”	means the Companies Ordinance, Chapter 32, the Laws of Hong Kong
“Company” or “Sinolink”	Sinolink Worldwide Holdings Limited (Stock Code: 1168), a company incorporated in Bermuda whose shares are listed on the main board of the Stock Exchange
“Composite Document”	the composite document containing the formal offer document of the Company and the board circular of Enerchina dated 28 December 2004 issued jointly by the Company and Enerchina in connection with the Offers
“Connected person(s)”	has the meaning as ascribed to it in the Listing Rules
“Dao Heng Securities”	Dao Heng Securities Limited, a company incorporated in Hong Kong, which is a deemed licensed corporation under the SFO to conduct Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance), Type 7 regulated activity (providing automated trading services) and Type 9 regulated activity (asset management) under the SFO, the independent financial adviser to the Enerchina Independent Board Committee, in relation to the Offers
“Directors”	the directors, including independent non-executive directors, of the Company
“Enerchina”	Enerchina Holdings Limited (stock code: 622), a company incorporated in Bermuda whose shares are listed on the main board of the Stock Exchange
“Enerchina Directors”	the directors, including independent non-executive directors, of Enerchina

DEFINITIONS

“Enerchina Independent Board Committee”	the committee of Enerchina Directors, comprising Lu Yungang, formed to advise the Enerchina Independent Shareholders and Optionholders in respect of the terms of the Offers
“Enerchina Option(s)”	an aggregate of 115,062,000 outstanding options granted by Enerchina under the share option schemes of Enerchina adopted on 26 July 1993 and 24 May 2002, each conferring on the grantees the right to subscribe for one new Enerchina Share at the Option Exercise Price
“Enerchina Optionholders” or “Optionholders”	holders of Enerchina Options
“Enerchina Share(s)”	share(s) of HK\$0.01 each in the capital of Enerchina
“Enerchina Shareholders”	holders of the Enerchina Shares
“Enlarged Group”	the Group, as enlarged by the Acquisition
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
“Facility”	a secured loan facility of up to HK\$460 million in aggregate, secured over all the assets of the Company, provided by Morgan Stanley Senior Funding, Inc. to the Company subject to the terms and on the conditions set out in the Facility Agreement
“Facility Agreement”	the facility agreement dated 6 December 2004, as amended by a letter agreement dated 23 December 2004, and made between Morgan Stanley Senior Funding, Inc. as Lender and the Company as borrower in relation to the Facility
“Group” or “Sinolink Group”	the Company and its subsidiaries (as defined in the Companies Ordinance (Cap. 32 of the Laws of Hong Kong)) (excluding the Enerchina Group)
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Kenson”	Kenson Investment Limited, an investment holding company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company
“Latest Practicable Date”	24 December 2004, being the latest practicable date prior to the printing of this circular for the purposes of ascertaining certain information contained herein
“Lender”	Morgan Stanley Senior Funding, Inc., a company incorporated in Delaware, the lender under the Facility Agreement
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Morgan Stanley”	Morgan Stanley Dean Witter Asia Limited, a company incorporated in Hong Kong, which is licensed for Type 1 regulated activity (dealing with securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance) and Type 7 regulated activity (providing automated trading services) under the Securities and Futures Ordinance
“Mr. MacKenzie”	Mr. Davin A. MacKenzie, an independent non-executive director of the Company and an independent non-executive director of Enerchina
“Mr. Ou”	Mr. Ou Yaping, the Chairman and an executive director of the Company and the Vice Chairman and an executive director of Enerchina
“Mr. Tang”	Mr. Tang Yui Man Francis, the Chief Executive Officer and an executive director of the Company and an executive director of Enerchina
“Mr. Xin”	Mr. Xin Luo Lin, an independent non-executive director of the Company and an independent non-executive director of Enerchina
“New China”	New China Control Systems Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by Enerchina (prior to the sale of its issued shares by Enerchina to an independent third party)
“Offers”	the Share Offer and the Option Offer
“Offeree” or “Enerchina”	Enerchina Holdings Limited (Stock Code: 622), a company incorporated in Bermuda with limited liability whose shares are listed on the main board of the Stock Exchange
“Offeree Group” or “Enerchina Group”	the Offeree and its subsidiaries (as defined in the Companies Ordinance (Cap. 32 of the Laws of Hong Kong))
“Option Exercise Price”	an amount between HK\$0.44 to HK\$0.55 (inclusive), subject to adjustment, being the price at which the holders of Enerchina Options may subscribe for new Enerchina Shares on the terms of the Enerchina Options
“Option Offer”	the mandatory unconditional cash offer being made by Morgan Stanley on behalf of the Company to cancel all the Enerchina Options at the Option Offer Price
“Option Offer Price”	HK\$0.63 less the Option Exercise Price per Enerchina Option
“Panva Gas”	Panva Gas Holdings Limited (Stock Code: 8132), a company incorporated in Cayman Islands with limited liability whose shares are listed on the GEM board of the Stock Exchange
“PRC”	the People’s Republic of China, excluding for the purposes of this circular, Hong Kong, Macau and Taiwan
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)

DEFINITIONS

“SFC”	the Securities and Futures Commission
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Shareholders”	holders of the Shares
“Share Offer”	the mandatory unconditional cash offer being made by Morgan Stanley on behalf of the Company to acquire all the issued Enerchina Shares other than those held by the Company and parties acting in concert with it at the Share Offer Price
“Share Offer Price”	HK\$0.63 per Enerchina Share
“Smart Orient”	Smart Orient Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	has the same meaning ascribed to it in Section 2 of the Companies Ordinance and subsidiaries shall be construed accordingly
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Vendors”	Pacific Sun Investment Ltd., Jayhawk China Fund (Cayman), Ltd., Neon Liberty Capital Management, LLC, and Waddell & Reed Financial Inc., all being investment funds, and which held 16,854,000, 173,146,000, 85,383,000 and 23,259,000 Enerchina Shares respectively immediately before the Acquisition
“Xin Hua Control”	Xin Hua Control Engineering Co., Ltd., a sino-foreign joint venture limited liability company established in the PRC, owned as to 41% by New China

LETTER FROM THE BOARD



百仕達控股有限公司*

SINOLINK WORLDWIDE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1168)

Executive Directors:

OU Yaping (*Chairman*)

TANG Yui Man Francis (*Chief Executive Officer*)

CHEN Wei

LAW Sze Lai

Registered Office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Independent Non-executive Directors:

LI Zhi Xiang

XIN Luo Lin

Davin A. MACKENZIE

Principal Place of Business in

Hong Kong:

28th Floor

Vicwood Plaza

199 Des Voeux Road

Central

Hong Kong

31 December 2004

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

1. INTRODUCTION

On 6 December 2004, the Company announced that Smart Orient, a wholly owned subsidiary of the Company, acquired from the Vendors on 3 December 2004 an additional 298,642,000 shares in Enerchina, representing 13.04% of the total issued share capital of Enerchina as at the date of the Announcement.

Immediately following the Acquisition, the Company and the parties acting in concert with it owned an aggregate 1,147,680,775 Enerchina Shares, representing approximately 50.10% of the voting rights in Enerchina. Therefore, the Company and parties acting in concert with it are obliged under Rule 26 of the Takeovers Code to make unconditional mandatory general offers to acquire all the issued and to be issued Enerchina Shares (other than those held by the Company and parties acting in concert with it) and for the cancellation of all Enerchina Options.

By the Announcement dated 6 December 2004, the Company announced that Morgan Stanley will make, on its behalf, the Offers.

The Acquisition and the Offers constitute a major transaction for the Company under the Listing Rules. Asia Pacific Promotion Limited, which owned 1,374,222,000 Shares, representing 58.96% of the issued share capital of the Company as at the date of the Acquisition, has given written approval for the Acquisition and the Offers as a major transaction in accordance with Rule 14.44 of the Listing Rules.

The purpose of this circular is to provide Shareholders with further details of the Acquisition and the Offers.

* For identification purposes only

LETTER FROM THE BOARD

2. THE ACQUISITION

The Acquisition Consideration was HK\$0.63 per Enerchina Share and represented:

- (i) a premium of approximately 6.8% to the closing price of HK\$0.59 per Enerchina Share quoted on the Stock Exchange on 2 December 2004, being the last trading day before suspension in trading of the Enerchina Shares on the Stock Exchange;
- (ii) a premium of approximately 10.5% to the average closing price of HK\$0.57 per Enerchina Share for the last 10 trading days before suspension in trading of the Enerchina Shares on the Stock Exchange;
- (iii) a premium of approximately 18.9% to the average closing price of HK\$0.53 per Enerchina Share for the last 30 trading days before suspension in trading of the Enerchina Shares on the Stock Exchange prior to the Announcement;
- (iv) a premium of approximately 23.5% to the average closing price of HK\$0.51 per Enerchina Share for the three months before suspension in trading of the Enerchina Shares on the Stock Exchange prior to the Announcement;
- (v) a premium of approximately 28.6% to the average closing price of HK\$0.49 per Enerchina Share for the six months before suspension in trading of the Enerchina Shares on the Stock Exchange prior to the Announcement;
- (vi) a premium of approximately 5% of the audited consolidated net tangible asset value of the Enerchina Group of approximately HK\$0.60 per Enerchina Share as at 31 December 2003 (based on the audited consolidated net tangible asset value of approximately HK\$456,045,000 and 762,762,968 Enerchina Shares in issue as at 31 December 2003) prior to the Announcement;
- (vii) a premium of approximately 31.3% of the unaudited consolidated net tangible asset value of the Enerchina Group of approximately HK\$0.48 per Enerchina Share as at 30 June 2004 (based on the unaudited consolidated net tangible asset value of approximately HK\$1,092,037,000 and 2,288,288,904 Enerchina Shares in issue as at 30 June 2004) prior to the Announcement; and
- (viii) a premium of approximately 1.6% of the closing price of HK\$0.62 per Enerchina Share quoted on the Stock Exchange on the Latest Practicable Date.

The Directors consider that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Acquisition Consideration was arrived at after arm's length negotiations between the parties involved with reference to the historical trading price of Enerchina Shares.

The aggregate Acquisition Consideration was HK\$188,144,460 and was satisfied by the Company by cash using existing internal cash resources.

3. THE OFFERS

The Offers

Immediately following the Acquisition, the Company and the parties acting in concert with it owned an aggregate 1,147,680,775 Enerchina Shares, representing approximately 50.10% of the voting rights in Enerchina. Therefore, the Company and parties acting in concert with it are obliged under Rule 26 of the Takeovers Code to make unconditional mandatory general offers to acquire all the issued and to be issued Enerchina Shares (other than those held by the Company and parties acting in concert with it) and for the cancellation of all Enerchina Options.

LETTER FROM THE BOARD

On behalf of the Company, Morgan Stanley will make the unconditional mandatory general offers on the following bases:

For each Enerchina Share under the Share Offer HK\$0.63 in cash

For each Enerchina Option under
the Option Offer HK\$0.63 less
the Option Exercise Price in cash

The Share Offer and the Option Offer are not conditional on acceptances being received in respect of a minimum number.

Comparisons of Value

The Share Offer

The Share Offer Price of HK\$0.63 per Enerchina Share represents:

- (i) a premium of approximately 6.8% to the closing price of HK\$0.59 per Enerchina Share quoted on the Stock Exchange on 2 December 2004, being the last trading day before suspension in trading of the Enerchina Shares on the Stock Exchange;
- (ii) a premium of approximately 10.5% to the average closing price of HK\$0.57 per Enerchina Share for the last 10 trading days before suspension in trading of the Enerchina Shares on the Stock Exchange;
- (iii) a premium of approximately 18.9% to the average closing price of HK\$0.53 per Enerchina Share for the last 30 trading days before suspension in trading of the Enerchina Shares on the Stock Exchange prior to the Announcement;
- (iv) a premium of approximately 23.5% to the average closing price of HK\$0.51 per Enerchina Share for the three months before suspension in trading of the Enerchina Shares on the Stock Exchange prior to the Announcement;
- (v) a premium of approximately 28.6% to the average closing price of HK\$0.49 per Enerchina Share for the six months before suspension in trading of the Enerchina Shares on the Stock Exchange prior to the Announcement;
- (vi) a premium of approximately 5% of the audited consolidated net tangible asset value of the Enerchina Group of approximately HK\$0.60 per Enerchina Share as at 31 December 2003 (based on the audited consolidated net tangible asset value of approximately HK\$456,045,000 and 762,762,968 Enerchina Shares in issue as at 31 December 2003) prior to the Announcement;
- (vii) a premium of approximately 31.3% of the unaudited consolidated net tangible asset value of the Enerchina Group of approximately HK\$0.48 per Enerchina Share as at 30 June 2004 (based on the unaudited consolidated net tangible asset value of approximately HK\$1,092,037,000 and 2,288,288,904 Enerchina Shares in issue as at 30 June 2004) prior to the Announcement; and
- (viii) a premium of approximately 1.6% of the closing price of HK\$0.62 per Enerchina Share quoted on the Stock Exchange on the Latest Practicable Date.

The Share Offer Price is the same as the price per Enerchina Share under the Acquisition.

The Share Offer Price represents the highest price paid by the Company, or parties acting in concert with it for the Enerchina Shares for the period between the date falling six months prior to the date of the Announcement and the Latest Practicable Date.

LETTER FROM THE BOARD

Atlantic Cay International Limited and Warburg Pincus Ventures L.P., shareholders of Enerchina holding 404,548,779 Enerchina Shares and 110,975,598 Enerchina Shares respectively, have given an unconditional and irrevocable undertaking to the Company that they will not accept the Share Offer for the Enerchina Shares held respectively by them. Each of Warburg Pincus Ventures International, L.P. and Warburg Pincus Equity Partners, L.P. is interested in 50% of the issued share capital of Atlantic Cay International Limited. Atlantic Cay International Limited and Warburg Pincus Ventures L.P. are independent of the Company and not parties acting in concert with the Company.

The Option Offer

The Option Offer Price represents the difference in value between the Share Offer Price and the Option Exercise Price of the outstanding Enerchina Options.

As at the Latest Practicable Date, Enerchina had 115,062,000 outstanding Enerchina Options. The exercise periods of the Enerchina Options range from 24 May 2000 to 19 October 2015. The exercise price of the Enerchina Options ranges from HK\$0.44 to HK\$0.55. The exercise in full of the Enerchina Options would result in the issue of an additional 115,062,000 Enerchina Shares. Save for the Enerchina Options, there are currently no other options, warrants or other securities issued by Enerchina that carry a right to subscribe for or which are convertible into Enerchina Shares.

The Share Offer Price, the Option Offer Price and the terms of the Offers have been reached after careful consideration by the directors of the Company, taking into account, among other things, the historical trading price of the Enerchina Shares.

Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin are common directors of the Company and Enerchina. Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors hold Enerchina Options in Enerchina. Each of Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors has given an unconditional and irrevocable undertaking to the Company that (1) he will not exercise the Enerchina Options held by him before the end of the Offer Period (as defined in the Takeovers Code) for the Offers; and (2) he will not accept the Option Offer for the Enerchina Options held by him.

Highest and lowest prices

During the period between the date falling six months immediately preceding the date of the Announcement and the Latest Practicable Date, the highest and lowest closing prices of the Enerchina Shares quoted on the Stock Exchange were HK\$0.63 per Enerchina Share on 13 December 2004 and 17 December 2004 and HK\$0.37 per Enerchina Share on 18 June 2004, respectively.

Total consideration

As at the Latest Practicable Date, Enerchina had 2,290,933,904 Shares in issue. Based on the Share Offer Price, the entire issued share capital of Enerchina was valued at approximately HK\$1,443,288,360. Based on the Option Offer Price, the outstanding 115,062,000 Enerchina Options were valued at approximately HK\$72,489,060.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company and the parties acting in concert with it held 1,147,680,775 Enerchina Shares. Based on a total of 627,728,752 Enerchina Shares held by parties other than the Company and parties acting in concert with it and other than Atlantic Cay International Limited and Warburg Pincus Ventures L.P., and a total of 26,900,000 Enerchina Options held by the Optionholders other than Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors, the consideration payable by the Company pursuant to the Share Offer and the Option Offer, if both are accepted in full, will be approximately HK\$395,469,114 and HK\$5,111,000, respectively.

All of the 81,586,000 Enerchina Options which can be exercised during the Offer Period (as defined in the Takeovers Code) are held by Enerchina Directors, who have each undertaken not to exercise the Enerchina Options during the Offer Period (as defined in the Takeovers Code) and not to accept the Option Offer.

If none of the Enerchina Shareholders and Optionholders accepts the Share Offer and the Option Offer respectively, the aggregate consideration paid by the Company for statutory control of Enerchina will be HK\$188,144,460, being the Acquisition Consideration.

Based on a total of 627,728,752 Enerchina Shares held by parties other than the Company and parties acting in concert with it and other than Atlantic Cay International Limited and Warburg Pincus Ventures L.P., and 26,900,000 Enerchina Options held by the Optionholders other than Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors as at the Latest Practicable Date, if both the Share Offer and Option Offer are accepted in full, the aggregate consideration (including the Acquisition Consideration) will be HK\$588,724,574.

Terms of the Offers

Under the terms of the Share Offer, the Enerchina Shares will be acquired by the Company fully paid and free from all liens, charges, pledges, encumbrances and any other third-party rights or interests of any nature whatsoever and together with all rights, benefits, and entitlements attaching and accruing thereto including the right to receive all dividends, rights and distribution declared, paid or made on or after the date of the Announcement.

Under the terms of the Option Offer, the Enerchina Options together with all rights attaching thereto will be entirely cancelled and renounced.

Independent financial advice

The Company has obtained independent financial advice from Commerzbank that the making of the Offers is in the interests of the Shareholders. The advice of Commerzbank is set out on pages 17 to 28 of this circular.

Stamp duty

The Company will pay seller's ad valorem stamp duty arising in connection with acceptances of the Share Offer, amounting to HK\$1.00 for every HK\$1,000 or part thereof of the consideration payable in respect of the relevant acceptance, which the Enerchina Shareholders who accept the Share Offer will be liable to pay and be deducted from the proceeds due to such Enerchina Shareholders under the Share Offer.

4. INFORMATION ON THE GROUP

The Company is listed on the main board of the Stock Exchange and is owned as to approximately 58.89% by Asia Pacific Promotion Limited. Asia Pacific Promotion Limited is the single largest shareholder of the Company and is wholly-owned by Mr. Ou. The Company is principally engaged in: (i) property development and investment; (ii) pipeline construction, liquefied petroleum gas and natural gas distribution, transportation, storage, distribution and sales of liquefied petroleum gas and natural gas; and (iii) electricity generation and supply operations.

LETTER FROM THE BOARD

5. INFORMATION ON THE ENERCHINA GROUP

Enerchina Shares are listed on main board of the Stock Exchange. The Enerchina Group's principal business is electricity generation and supply in the PRC.

The audited consolidated turnover of Enerchina for the two years ended 31 December 2003 were approximately HK\$115,245,000 and HK\$559,797,000 respectively. The audited net profit (loss) of Enerchina for the two years ended 31 December 2003 were approximately HK\$(85,697,000) and HK\$57,466,000, respectively. The audited consolidated net assets of Enerchina as at 31 December 2002 and 31 December 2003 were approximately HK\$280 million and HK\$661 million, respectively.

Set out below are the audited net profit (loss) recorded by Enerchina for the two years ended 31 December 2003:

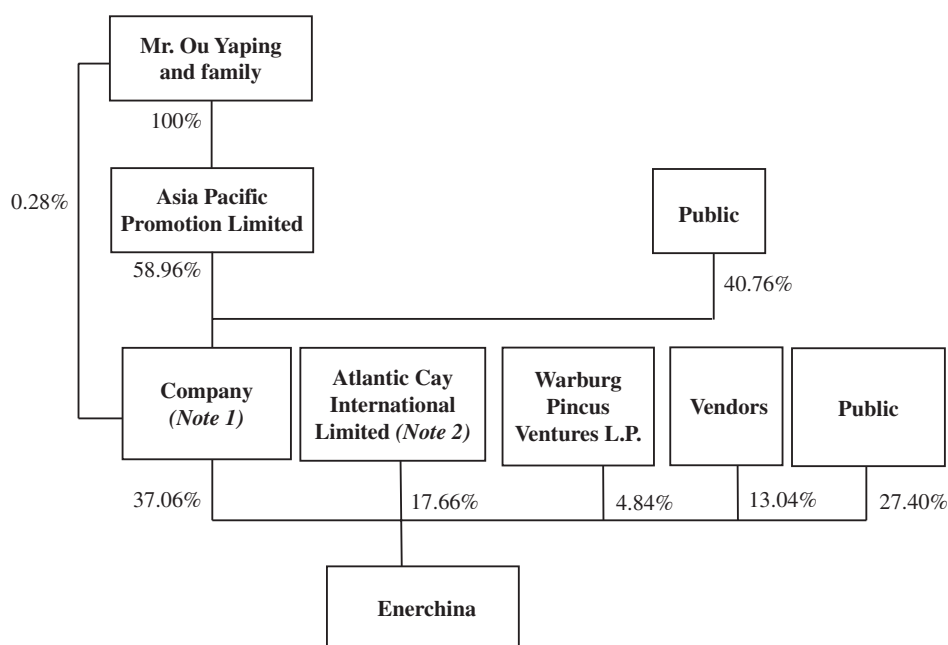
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) before taxation	98,116	(81,662)
Income taxes	(8,899)	(111)
Profit before minority interests	89,217	(81,773)
Minority interests	(31,751)	(3,924)
Net profit (loss) for the year	57,466	(85,697)

Based on the register maintained by Enerchina pursuant to Section 336 of the Securities and Futures Ordinance, the shareholding structures of Enerchina immediately before the Acquisition and immediately after the Acquisition are illustrated in the following table and charts:

	Number of Enerchina Shares immediately before the Acquisition	Approximate percentage shareholding in Enerchina immediately before the Acquisition	Number of Enerchina Shares immediately after the Acquisition	Approximate percentage shareholding in Enerchina immediately after the Acquisition
Enerchina Shareholders				
The Company (<i>Note 1</i>)	849,038,775	37.06%	1,147,680,775	50.10%
Warburg Pincus & Co. (<i>Note 3</i>)	515,524,377	22.50%	515,524,377	22.50%
Public	926,370,752	40.44%	627,728,752	27.40%
Total issued Enerchina Shares	2,290,933,904	100.00%	2,290,933,904	100.00%

LETTER FROM THE BOARD

The shareholding structure of Enerchina immediately before the Acquisition can be illustrated as follows:

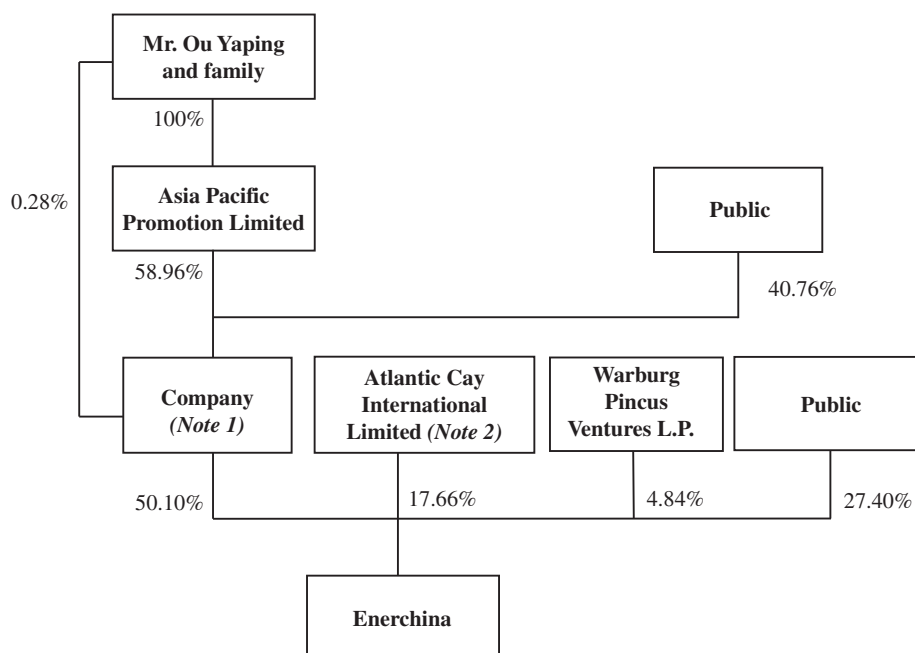


Note 1: including the interest of Smart Orient

Note 2: each of Warburg Pincus Ventures International, L.P. and Warburg Pincus Equity Partners, L.P. is interested in 50% of the issued share capital of Atlantic Cay International Limited

Note 3: deemed interest in the Enerchina Shares held by Atlantic Cay International Limited and Warburg Pincus Ventures L.P.

The shareholding structure of Enerchina immediately after the Acquisition can be illustrated as follows:



Note 1: including the interest of Smart Orient

Note 2: Each of Warburg Pincus Ventures International, L.P. and Warburg Pincus Equity Partners, L.P. is interested in 50% of the issued share capital of Atlantic Cay International Limited

LETTER FROM THE BOARD

Disposal of New China

Enerchina has entered into an equity transfer agreement on 16 December 2004 (the “Agreement”) with Xin Hua Control, New China and an independent third party (the “Buyer”) whereby Enerchina shall sell and the Buyer shall purchase the entire interest of Enerchina in New China and, amongst others, Enerchina shall cancel all its existing shareholder’s loan due from New China, for a cash consideration of US\$23,500,000 (the “Disposal”). Completion of the Disposal by the Buyer is subject to the fulfilment of certain conditions including but not limited to all required consents, authorisations or approvals from all other third parties that are necessary for closing of the transaction contemplated under the Agreement shall have been received and the Buyer shall have completed its business, accounting, tax and legal due diligence analysis and review of Xin Hua Control, and are reasonably satisfied with respect to the business, properties, operations, nature of assets, liabilities, and financial condition of Xin Hua Control. Similarly, completion of the Disposal by Enerchina is subject to the fulfilment of certain conditions including but not limited to the performance in all material respects of all the obligations of the Buyer under the Agreement that are required to be performed by it at or prior to closing.

New China owns 41% of the equity interest in Xin Hua Control. Xin Hua Control is principally engaged in the business of manufacture and sale of control systems for power plants and large scale manufacturing plants.

The Disposal is deemed to be a discloseable transaction for both the Company and Enerchina pursuant to Chapter 14 of the Listing Rules. Details of the Disposal was disclosed in the joint announcement of the Company and Enerchina dated 17 December 2004.

Under Rule 4 of the Takeovers Code, once a bona fide offer has been communicated to the board of an offeree company or the board of an offeree company has reason to believe that a bona fide offer may be imminent, no action which could effectively result in an offer being frustrated, or in the shareholders of the offeree company being denied an opportunity to decide on the merits of an offer, shall be taken by the board of the offeree company in relation to the affairs of the company without the approval of the shareholders of the offeree company in general meeting.

The Executive treats the Disposal as a frustrating action of Enerchina under Rule 4 of the Takeovers Code.

Under Note 1 to Rule 4 of the Takeovers Code, the Executive may grant a waiver from the requirement of a shareholders’ meeting if the offeror agrees to the relevant transaction. In relation to this, Enerchina has obtained a written consent for the Disposal from the Company. As such, Enerchina has applied to the Executive for and obtained a waiver from the requirement to obtain shareholders’ approval in a general meeting of Enerchina in relation to the entering into the Agreement and other documents in connection with the Disposal by Enerchina and the completion of the Disposal.

6. REASONS AND BENEFITS FOR THE ACQUISITION

Enerchina is principally engaged in electricity generation and supply in the PRC. Its key asset is the Fuhuade Power Plant in Shenzhen which is strategically located in Dapeng Town, Shenzhen, 10 kilometres from the proposed Guangdong liquefied natural gas terminal. Enerchina recently completed an expansion of the installed capacity of the Fuhuade Power Plant from 305 megawatts to 480 megawatts and is currently undergoing further expansion to 665 megawatts. This latest expansion is expected to be completed by the first half of 2005. The fuel source of the Fuhuade Power Plant will be changed from fuel oil to liquefied natural gas, upon completion of the Guangdong liquefied natural gas terminal. This is expected to result in an increase in operational efficiency and an improvement in operating margins. Enerchina is also conducting feasibility studies further to increase the installed capacity of the Fuhuade Power Plant to 1,000 megawatts along with the on-going exercise to divest non-core business.

The Directors are of the view that the Acquisition provides an opportunity for the Company to gain control of a high quality and value-enhancing asset. The Directors believe that, in line with the economic development and growth in China, demand for electricity will continue its upward trend. In light of the commencement of full operation, the ongoing expansion and the opportunity to improve the efficiency and returns of the Fuhuade Power Plant, the Directors believe the Acquisition gives the Company a good opportunity to increase its interest in Enerchina and thus enhance the Group’s earnings base. The Directors consider that the terms of the Offer to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

7. INTENTION OF THE COMPANY

The Directors currently do not intend to make any change to the existing business (including any redeployment of fixed assets) and management of the Enerchina Group and to make any substantial change of the employee structure except that the Company may nominate additional persons to the Board and the management in accordance with business needs. It is envisaged by the Directors that the Enerchina Group will continue to focus on the business of electricity generation and supply in the PRC. The Company intends to hold its interest in Enerchina as a long term investment.

Save pursuant to the Offers and as necessary to maintain sufficient public float in Enerchina, the Company has no current intention either to increase or to decrease its shareholding in Enerchina. The Directors will review such intention from time to time.

8. BUSINESS REVIEW AND PROSPECTS OF THE GROUP

Property Development

As at the Latest Practicable Date, the Group has the following properties under development:

- Sinolink Garden Phase Four western district, *The Oasis*, is a 1,322 units development covering a total gross floor area of 140,868 square metres and a 20,619 square metres commercial development. With Jusco as a major anchor tenant, the project also concentrates on the development of medium size properties. The construction work of the whole project is expected to complete by September 2005. *The Oasis* has commenced presale and received favourable results.
- *The Mangrove West Coast* is a development project with a total site area of 75,102 square metres and total gross floor area of approximately 249,300 square metres. The residential development project has been completed close to half of its development as at 30 June 2004. Pre-sale schedule is under planning.

As at the Latest Practicable Date, the Group expects an increase in the gross floor area available for sale due to the launch of *The Oasis*. Encouraged by the positive response from the presale of *The Oasis*, the Group expects the sales of properties will continue to improve. On the macro side, the PRC government imposed several control measures to adjust its economy growth earlier this year. The Board believes these macro-austerity measures do not have a material impact on the property development business of the Group. In fact, the demand for medium size properties continue to prosper in the Shenzhen property market and the Group's development project, *The Oasis*, just fits this trend and demand. Going forward, the Group will continue to seek its expansion in the property development business by actively exploring other projects which offer premium value to home buyers.

Gas Fuel Business

The Group's Gas Fuel business has continued to expand and set up record increases in turnover for wholesale, retail and gas pipeline construction businesses. In the second half of 2004, the Group acquired several additional piped gas projects which significantly enhanced the Group's economies-of-scale benefits and competitive advantages.

Looking ahead, Panva Gas, a non-wholly owned subsidiary of the Company, will continue to strengthen its piped gas development business in the southwestern, southern, eastern and northeastern PRC regions and strive to secure more high quality piped gas projects. At the same time, Panva Gas will also continue to invest in and actively expand its retail and wholesale businesses of LP Gas.

LETTER FROM THE BOARD

Electricity Generation

In the first half of 2004, despite the fact that the PRC government introduced macroeconomic measures to adjust its economy growth, the growth of both power generation and consumption remained high in the PRC. In fact, due to the shortage of electricity supply, several provinces in the PRC had taken measures to restrict electricity consumption. The gross domestic products in the PRC grew by 9.7% over the period under review and the power generation industry grew at an even greater rate with the total domestic electricity consumption grew by approximately 15.8% in the same period.

In order to meet this tremendous demand for electricity, the Group continues to seek opportunities to further expand its electricity generation capacity. Together with the existing power generating units and the expansions already in progress, the installed capacity of the Group will reach a total of 665,000 kilowatts after completion of the abovementioned expansions. The increased installed capacity together with the tremendous demand for power generation in the PRC creates favourable conditions for our growth in this industry.

In response to the strong demand for electricity in the PRC, the Group has been conducting feasibility studies towards switching to the utilization of natural gas as fuel and to further expand its capacity by exploring new projects in the markets to ensure the Group can maintain a high growth rate in this business.

9. FACILITY AGREEMENT

On 6 December 2004, the Company as borrower entered into the Facility Agreement with the Lender in respect of a loan facility of up to HK\$460 million, secured over all the assets of the Company. The Facility shall be repaid in full 9 months after the first date of drawdown. The purpose of the Facility is to finance the Offers.

Morgan Stanley is satisfied that sufficient financial resources are available to the Company to satisfy full acceptance of the Offers. The Offers will be financed by, inter alia, the Facility and the Company's internal resources.

10. INTEREST OF THE COMPANY AND ITS CONCERT PARTIES IN ENERCHINA

The holdings of the Company and parties acting in concert with it of Enerchina Shares and Enerchina Options as at the date of the Announcement and the Latest Practicable Date (taking into account the Enerchina Shares acquired pursuant to the Acquisition) can be summarised as follows:

Name	Capacity	Number of Enerchina Shares	Approximate percentage of the issued share capital
Smart Orient Investments Limited	Beneficial owner	575,792,809	25.13%
Sinolink Worldwide Holdings Limited	Beneficial owner and interest of controlled corporation	1,147,680,775 (Note)	50.10%
Asia Pacific Promotion Limited	Interest of controlled corporation	1,147,680,775 (Note)	50.10%
Mr. Ou Yaping and family	Interest of controlled corporation	1,147,680,775 (Note)	50.10%

Note: This number of Enerchina Shares represents the aggregate of: (a) 571,887,966 Enerchina Shares held directly by the Company (taking into account the Enerchina Shares acquired pursuant to the Acquisition); and (b) the number of Enerchina Shares in which Smart Orient Investments Limited is interested as disclosed above.

LETTER FROM THE BOARD

Name	Date of Grant	Exercise price (HK\$)	Exercise period		Number of Enerchina Options	Approximate percentage of the existing issued share capital
			From	To		
Mr. Ou Yaping	9 Jun 2004	0.44	9 Jun 2004	8 Jun 2014	2,288,000	0.10%
Mr. Tang Yui Man Francis	9 Jun 2004	0.44	9 Jun 2004	8 Jun 2014	22,880,000	1.00%
Mr. Xin Luo Lin	9 Jun 2004	0.44	9 Jun 2004	8 Jun 2014	2,288,000	0.10%
Mr. Davin A. MacKenzie	20 Oct 2004	0.50	20 Oct 2005	19 Oct 2015	2,288,000	0.10%
Mr. Sun Qiang Chang	24 May 2000	0.55	24 May 2000	23 May 2010	26,250,000	1.15%
Mr. Xiang Ya Bo	9 Jun 2004	0.44	9 Jun 2004	8 Jun 2014	22,880,000	1.00%
Mr. Leng Xuesong	9 Jun 2004	0.44	9 Jun 2004	8 Jun 2014	5,000,000	0.22%
Mr. Xu Xinghai	9 Jun 2004	0.44	9 Jun 2005	8 Jun 2014	666,666	0.03%
	9 Jun 2004	0.44	9 Jun 2006	8 Jun 2014	666,666	0.03%
	9 Jun 2004	0.44	9 Dec 2006	8 Jun 2014	666,668	0.03%
Mr. Lu Yungang	9 Jun 2004	0.44	9 Jun 2005	8 Jun 2014	2,288,000	0.10%

Save as disclosed above, no connected person (as defined in the Listing Rules) of the Company and no party acting in concert (as defined in the Takeovers Code) with the Company is a Enerchina Shareholder or an Enerchina Optionholder as at the Latest Practicable Date.

There was no other dealing in the Enerchina Shares by the Company or any party acting in concert with it in the six months immediately before the date of the Announcement, save in relation to the Acquisition and the non-concert party dealings of Morgan Stanley and persons controlling, controlled by or under the same control as Morgan Stanley.

Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin are the common directors of the Company and Enerchina. Each of Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors has given an unconditional and irrevocable undertaking to the Company that (1) he will not exercise the Enerchina Options held by him before the end of the Offer Period (as defined in the Takeovers Code) for the Offers; and (2) he will not accept the Enerchina Option Offer for the Enerchina Options held by him.

The Enerchina Independent Board Committee has been established to advise the Enerchina Shareholders on the terms of the Offers. An independent financial adviser, Dao Heng Securities, has been appointed to advise the Enerchina Independent Board Committee in relation to the Offers.

11. MAJOR TRANSACTION

The Acquisition and the Offers constitute a major transaction for the Company under the Listing Rules.

None of the Vendors is a connected person of the Company within the meaning of the Listing Rules and the Acquisition is not a connected transaction for the Company under the Listing Rules. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors and their respective ultimate beneficial owners are third parties independent of the Company and independent of connected persons of the Company.

As Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin, the common directors of the Company and Enerchina, and other Enerchina Directors, have given respective irrevocable undertakings not to accept the Option Offer for the Enerchina Options held by them respectively, the Offers do not constitute connected transactions for the Company under the Listing Rules.

As Mr. Ou has given an irrevocable undertaking not to accept the Option Offer for the Enerchina Options held by him, Mr. Ou and Asia Pacific Promotion Limited do not, by virtue of the Enerchina Options held by Mr Ou, have a material interest in the Offers under Rule 14.46 of the Listing Rules. Furthermore, Mr Ou (along with Mr. Tang, Mr. Xin and Mr. MacKenzie) are not part of the Enerchina Independent Board Committee formed to advise

LETTER FROM THE BOARD

the Enerchina Shareholders in respect of the terms of the Offers. Accordingly, no Shareholder has any material interest in the Acquisition and the Offers and no Shareholder is required to abstain from voting if a general meeting were to be convened for the approval of the Acquisition and the Offers as a major transaction. On this basis, Asia Pacific Promotion Limited, which owned 1,374,222,000 Shares, representing 58.96% of the issued share capital of the Company as at the date of the Announcement, has given written approval for the Acquisition and the Offers as a major transaction in accordance with Rule 14.44 of the Listing Rules.

12. GENERAL MATTERS

Under Rule 2.1 of the Takeovers Code, a board which receives an offer should retain a competent independent financial adviser to advise the board as to whether the offer is, or is not, fair and reasonable and to establish an independent committee of the board to discharge the board's responsibilities in relation to the offer. The Enerchina Independent Board Committee has been established and Dao Heng Securities has been appointed as the independent financial adviser to advise the Enerchina Independent Board Committee.

The Composite Document and the acceptance and transfer forms have been despatched to the Enerchina Shareholders on 28 December 2004.

Further announcements will be made by the Company and/or Enerchina as and when appropriate, in accordance with the Takeovers Code and the Listing Rules.

13. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices.

By Order of the Board of
Sinolink Worldwide Holdings Limited
Ou Yaping
Chairman

LETTER FROM COMMERZBANK

德 國 商 業 銀 行

COMMERZBANK 

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31 December 2004

To the Board and the Shareholders

Dear Sirs

**MAJOR TRANSACTION
ACQUISITION OF SHARES IN ENERCHINA HOLDINGS LIMITED
BY
SMART ORIENT INVESTMENTS LIMITED
(A WHOLLY OWNED SUBSIDIARY OF
SINOLINK WORLDWIDE HOLDINGS LIMITED)
AND
UNCONDITIONAL MANDATORY GENERAL OFFERS
BY
MORGAN STANLEY DEAN WITTER ASIA LIMITED
ON BEHALF OF
SINOLINK WORLDWIDE HOLDINGS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF AND FOR CANCELLATION OF ALL
OUTSTANDING OPTIONS OF
ENERCHINA HOLDINGS LIMITED
(OTHER THAN THOSE SHARES HELD BY SINOLINK WORLDWIDE
HOLDINGS LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Board and the Shareholders in respect of the Offers, the definitions of which, amongst other things, are set out in the circular dated 31 December 2004 (the "Circular") of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context requires otherwise.

On 6 December 2004, the Company announced that Smart Orient, a wholly owned subsidiary of the Company, acquired from the Vendors on 3 December 2004 an additional 298,642,000 shares in Enerchina, representing 13.04% of the total issued share capital of Enerchina as at the date of the Announcement.

Immediately following the Acquisition, the Company and the parties acting in concert with it owned an aggregate 1,147,680,775 Enerchina Shares, representing approximately 50.10% of the voting rights in Enerchina. Therefore, the Company and parties acting in concert with it are obliged under Rule 26 of the Takeovers Code to make unconditional mandatory general offers to acquire all the issued and to be issued Enerchina Shares (other than those held by the Company and parties acting in concert with it) and for the cancellation of all Enerchina Options.

By the Announcement dated 6 December 2004, the Company announced that Morgan Stanley will make, on its behalf, the Offers. The Acquisition and the Offers constitute a major transaction under the Listing Rules. Our role as the independent financial adviser to the Board and the Shareholders is to give our opinion as to whether the making of the Offers are in the interests of the Shareholders.

LETTER FROM COMMERZBANK

In formulating our opinion, we have relied on the information and facts supplied to us by the Company. We have assumed that all information, opinion and representations given by the Company contained or referred to in the Circular are true, complete and accurate in all material respects and we have relied on the same. Also, we have relied on the representations of the Company that having made all due enquiries and careful decisions, and to the best of its knowledge and belief, there is no other fact or representation or the omission of which would make any statement contained in the Circular, including this letter, misleading. We have also assumed that all information and statements and representations made or referred to in the Circular, which have been provided to us by the Company, and for which they are wholly responsible, are true, complete and accurate in all material respects at the time they were made and continue to be so at the date of despatch of the Circular.

We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the terms of the Offers, to provide us with a reasonable basis for our opinion. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances, which would render the information and the representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Company, nor have we conducted any independent in-depth investigation into the business and affairs of the Company.

1. THE OFFERS

Immediately following the Acquisition, the Company and the parties acting in concert with it owned an aggregate 1,147,680,775 Enerchina Shares, representing approximately 50.10% of the voting rights in Enerchina. Therefore, the Company and parties acting in concert with it are obliged under Rule 26 of the Takeovers Code to make unconditional mandatory general offers to acquire all the issued and to be issued Enerchina Shares (other than those held by the Company and parties acting in concert with it) and for the cancellation of all Enerchina Options.

On behalf of the Company, Morgan Stanley will make the unconditional mandatory general offers on the following bases:

For each Enerchina Share under the Share OfferHK\$0.63 in cash

For each Enerchina Option under
the Option Offer HK\$0.63 less the Option Exercise Price in cash

The Share Offer and the Option Offer are not conditional on acceptance being received in respect of a minimum number.

The Share Offer Price is the same as the price per Enerchina Share under the Acquisition. The Option Offer Price represents the difference in value between the Share Option Price and the Option Exercise Price of the outstanding Enerchina Options.

Atlantic Cay International Limited and Warburg Pincus Ventures L.P., shareholders of Enerchina holding 404,548,779 Enerchina Shares and 110,975,598 Enerchina Shares respectively, have given an unconditional and irrevocable undertaking to the Company that they will not accept the Share Offer for the Enerchina Shares held respectively by them. Each of Warburg Pincus Ventures International, L.P. and Warburg Pincus Equity Partners, L.P. is interested in 50% of the issued capital of Atlantic Cay International Limited. Atlantic Cay International Limited and Warburg Pincus Ventures L.P. are independent of the Company and not parties acting in concert with the Company.

As at the Latest Practicable Date, Enerchina had 115,062,000 outstanding Enerchina Options. The exercise periods of the Enerchina Options range from 24 May 2000 to 19 October 2015. The exercise price of the Enerchina Options ranges from HK\$0.44 to HK\$0.55. The exercise in full of the Enerchina Options would result in the issue of an additional 115,062,000 Enerchina Shares. Save for the Enerchina Options, there are currently no other options, warrants or other securities issued by Enerchina that carry a right to subscribe for or which are convertible into Enerchina Shares.

LETTER FROM COMMERZBANK

The Share Offer Price, the Option Offer Price and the terms of the Offers have been reached after careful consideration by the Directors, taking into account, among other things, the historical trading price of the Enerchina Shares.

Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin are common directors of the Company and Enerchina. Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors hold Enerchina Options in Enerchina. Each of Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors has given an unconditional and irrevocable undertaking to the Company that (1) he will not exercise the Enerchina Options held by him before the end of the Offer Period (as defined in the Takeovers Code) for the Offers; and (2) he will not accept the Option Offer for the Enerchina Options held by him.

1.1 Highest and lowest prices

During the period between the date falling six months immediately preceding the date of the Announcement and the Latest Practicable Date, the highest and lowest closing prices of the Enerchina Shares quoted on the Stock Exchange were HK\$0.63 per Enerchina Share on 13 December 2004 and 17 December 2004 and HK\$0.37 per Enerchina Share on 18 June 2004, respectively.

1.2 Total consideration

As at the Latest Practicable Date, Enerchina had 2,290,933,904 Shares in issue. Based on the Share Offer Price, the entire issued share capital of Enerchina was valued at approximately HK\$1,443,288,360. Based on the Option Offer Price, the outstanding 115,062,000 Enerchina Options were valued at approximately HK\$72,489,060.

As at the Latest Practicable Date, the Company and the parties acting in concert with it held 1,147,680,775 Enerchina Shares. Based on a total of 627,728,752 Enerchina Shares held by parties other than the Company and parties acting in concert with it and other than Atlantic Cay International Limited and Warburg Pincus Ventures L.P., and a total of 26,900,000 Enerchina Options held by the Optionholders other than Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors, the consideration payable by the Company pursuant to the Share Offer and the Option Offer, if both are accepted in full, will be approximately HK\$395,469,114 and HK\$5,111,000, respectively.

All of the 81,586,000 Enerchina Options which can be exercised during the Offer Period (as defined in the Takeovers Code) are held by Enerchina Directors, who have each undertaken not to exercise the Enerchina Options during the Offer Period (as defined in the Takeovers Code) and not to accept the Option Offer.

If none of the Enerchina Shareholders and Optionholders accepts the Share Offer and the Option Offer respectively, the aggregate consideration paid by the Company for statutory control of Enerchina will be HK\$188,144,460, being the Acquisition Consideration.

Based on a total of 627,728,752 Enerchina Shares held by parties other than the Company and parties acting in concert with it and other than Atlantic Cay International Limited and Warburg Pincus Ventures L.P., and 26,900,000 Enerchina Options held by the Optionholders other than Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors as at the Latest Practicable Date, if both the Share Offer and Option Offer are accepted in full, the aggregate consideration (including the Acquisition Consideration) will be HK\$588,724,574.

1.3 Terms of the Offers

Under the terms of the Share Offer, the Enerchina Shares will be acquired by the Company fully paid and free from all liens, charges, pledges, encumbrances and any other third-party rights or interests of any nature whatsoever and together with all rights, benefits, and entitlements attaching and accruing thereto including the right to receive all dividends, rights and distribution declared, paid or made on or after the date of the Announcement.

LETTER FROM COMMERZBANK

Under the terms of the Option Offer, the Enerchina Options together with all rights attaching thereto will be entirely cancelled and renounced.

2. PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the making of the Offers and giving our independent financial advice to the Board and the Shareholders, we have taken into account the following principal factors:

2.1 Reasons for and benefits of the Acquisition

2.1.1 *Business and strategy of the Company*

The principal businesses of the Company are property development, the sale and distribution of liquefied petroleum gas and natural gas (“Gas Fuel”), gas pipeline construction and the generation and sale of electricity in the PRC.

The Company’s real estate developments are located in the city of Shenzhen in the PRC. Under the positive economic environment and the favourable real estate policies, Shenzhen’s property sector has seen healthy growth. Despite the government’s macro austerity measures and tightened lending policy in 2003, the Directors of the Company believe that the Shenzhen property market will maintain a healthy trend of demand and price. Going forward, the Company will actively explore projects which offer premium value to expand its property development business.

In addition to property development, the Company is also actively growing its business in the PRC energy sector, primarily in the Gas Fuel and electricity generation markets. Driven by the PRC’s strong economic growth, the increasing demand in the PRC power market and the requirement for clean energy consumption have resulted in substantial and growing demand for natural gas and electricity generation. To capitalize on opportunities in the development and utilisation of natural gas, the Company will continue to strengthen its piped gas development business in the southern, eastern and north-eastern PRC regions and will seek to secure good quality piped gas projects. In addition, the Company will look to invest and expand its retail and wholesale businesses for liquefied petroleum gas. In response to the strong demand for electricity in the PRC, the Company, through the Acquisition, will play an active role in the PRC power sector. In particular, to maximise business synergies, the Company will consider utilising natural gas as fuel for power generation and continue to further pursue new projects and investment opportunities in the electricity generation and energy related businesses.

2.1.2 *Business and strategy of Enerchina*

Enerchina is principally engaged in electricity generation and supply in the PRC. Its key asset is the Fuhuade Power Plant in Shenzhen, which is strategically located in Dapeng Town, Shenzhen, 10 kilometres from the proposed Guangdong liquefied natural gas port. Enerchina recently completed an expansion of the installed capacity of the Fuhuade Power Plant from 305 megawatts to 480 megawatts and is currently undergoing further expansion to 665 megawatts. This latest expansion is expected to be completed by the first half of 2005. The fuel source of the Fuhuade Power Plant will be changed from fuel oil to liquefied natural gas/natural gas, upon completion of the Guangdong liquefied natural gas terminal. This is expected to result in an increase in operational efficiency and an improvement in operating margins. Enerchina is also conducting feasibility studies to further increase the installed capacity of the Fuhuade Power Plant to 1,000 megawatts along with the ongoing exercise to divest non-core business.

The Directors are of the view that the Acquisition provides an opportunity for the Company to gain statutory control of a high quality and value-enhancing asset. The Directors believe that, in line with the economic development and growth in China, demand for electricity will continue its upward trend. In light of the commencement of full operation, the ongoing expansion and the opportunity to improve the efficiency and returns of the Fuhuade Power Plant, the Directors believe that the Acquisition gives the Company a good opportunity to increase its interest in Enerchina and thus enhance the Group’s earnings base. The Directors consider that the terms and conditions of the Offers to be fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

LETTER FROM COMMERZBANK

2.1.3 Historical financial performance of the Company

As set out in Appendix I of the Circular, the Group's audited consolidated net profit for the three years ended 31 December 2003, 31 December 2002, 31 December 2001, were approximately HK\$629.9 million, approximately HK\$294.4 million and approximately HK\$116.9 million respectively. For the six months ended 30 June 2004, the Group's consolidated net profit was approximately HK\$67.1 million.

Consolidated profit and loss accounts of the Group

	Six months ended 30 June	Year ended 31 December		
	(unaudited)	(audited and restated)	(audited)	(audited)
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	945,476	1,815,356	1,525,406	1,527,305
Cost of sales	(735,960)	(1,336,630)	(1,156,903)	(1,258,519)
Gross profit	290,516	478,726	368,503	268,786
Other operating income	10,674	25,511	20,953	32,850
Distribution costs	(34,433)	(52,512)	(46,380)	(48,233)
Administration costs	(63,551)	(130,649)	(117,081)	(101,503)
Other operating expenses	(3,657)	(15,159)	(3,509)	(5,912)
Profit from operations	118,549	305,917	222,486	145,988
Finance costs	(6,467)	(10,630)	(4,350)	(6,844)
Gain on disposal of subsidiaries	3,898	293,871	195,908	44,466
Release of deferred gain				
on disposal of a subsidiary	-	77,000	-	-
Gain (loss) on disposal of associates	-	133,209	(234)	422
Gain on partial disposal of an associate	-	2,677	-	-
Amortisation of goodwill of an associate	-	(2,724)	(1,816)	-
Loss on deemed disposal arising from dilution of interests in a subsidiary	(3,917)	-	-	-
Share of results of associates	12,211	5,981	(22,749)	(360)
Profit before taxation	124,274	805,247	389,245	183,672
Taxation	(9,334)	(48,654)	(16,068)	(10,499)
Profit after tax and before minority interests	114,940	756,593	373,177	173,173
Minority interests	(47,890)	(126,658)	(78,748)	(56,202)
Net profit for the period	<u>67,050</u>	<u>629,935</u>	<u>294,429</u>	<u>116,971</u>

2.1.4 Historical financial performance of Enerchina

As set out in the Appendix II of the Circular, Enerchina recorded consolidated net profit of approximately HK\$57.5 million for the year ended 31 December 2003, which improved from the net losses of approximately HK\$85.7 million and approximately HK\$141.9 million for the two years ended 31 December 2002 and 31 December 2001 respectively. For the six months ended 30 June 2004, Enerchina's consolidated net profit was approximately HK\$29.9 million.

LETTER FROM COMMERZBANK

Consolidated profit and loss accounts of Enerchina

	Six months ended 30 June	Year ended 31 December		
	(unaudited)	(audited)	(audited)	(audited)
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	364,675	559,797	115,245	670
Cost of sales and direct operating expenses	(287,664)	(415,478)	(94,460)	(329)
Gross profit	77,011	144,319	20,785	341
Other operating income	2,727	6,951	1,093	13,478
Impairment loss of investment securities	–	–	(13,300)	(47,965)
Impairment loss of investment in an option	–	–	(48,986)	–
Loss arising from investment properties	–	–	(5,167)	(4,297)
Administrative and selling expenses	(14,484)	(23,216)	(19,683)	(19,201)
Other operating expenses	(5,841)	(11,516)	(7,559)	(112)
Profit (loss) from operations	59,413	116,538	(72,817)	(57,756)
Finance costs	(7,555)	(18,384)	(5,666)	(1,710)
Impairment loss of associates	–	–	–	(41,555)
Gain on deemed disposal of subsidiaries	–	–	–	1,817
Loss on disposal of associates/subsidiaries	–	(38)	(2,135)	–
Amortisation of premium on acquisition of associates	–	–	(3,655)	(6,662)
Share of results of associates	–	–	2,611	(34,433)
Profit (loss) before taxation	51,858	98,116	(81,662)	(140,299)
Income taxes	(4,458)	(8,899)	(111)	(2,118)
Profit after tax and before minority interests	47,400	89,217	(81,773)	(142,417)
Minority interests	(17,532)	(31,751)	(3,924)	527
Net profit (loss) for the period	<u>29,868</u>	<u>57,466</u>	<u>(85,697)</u>	<u>(141,890)</u>

Having considered the above, given that (i) the Acquisition is in line with the business strategy of the Company and (ii) the Acquisition provides the Company with the opportunity to gain statutory control of a company tapping the growth opportunities in the electricity generation and supply sector in the PRC, we concur with the Directors that the Acquisition and the Offers are in the interests of the Company and its Shareholders as a whole.

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2.2 Analysis of the Share Offer Price

2.2.1 Comparison of the Share Offer Price with various average closing prices

The Share Offer Price of HK\$0.63 per Enerchina Share represents:

Date/period	Closing price/ average closing price per Enerchina Share for the period	Premium of the Offer Share Price over the closing price/ average closing price in the respective period
As at 2 December 2004	0.59	6.8%
5 days up to and including 2 December 2004	0.59	6.8%
10 days up to and including 2 December 2004	0.57	10.5%
One month up to and including 2 December 2004	0.53	18.9%
Three months up to and including 2 December 2004	0.51	23.5%
Six months up to and including 2 December 2004	0.49	28.6%
One year up to and including 2 December 2004	0.49	28.6%
As at the Latest Practicable Date	0.62	1.6%
Net tangible asset value per Enerchina Share as at 31 December 2003	0.60	5.0%
Net tangible asset value per Enerchina Share as at 30 June 2004	0.48	31.3%

The Share Offer Price represents a premium of approximately 6.8% to the last closing price of the Enerchina Share on 2 December 2004, being the last trading day prior to the suspension in trading of the Enerchina Shares on the Stock Exchange (the "Suspension"), and a premium of approximately 6.8% and approximately 10.5% to the average closing prices for the last 5 and 10 days prior to the Suspension respectively. The Share Offer Price represents a premium which ranged from approximately 18.9% to approximately 28.6% over the average closing prices of Enerchina Shares for the one

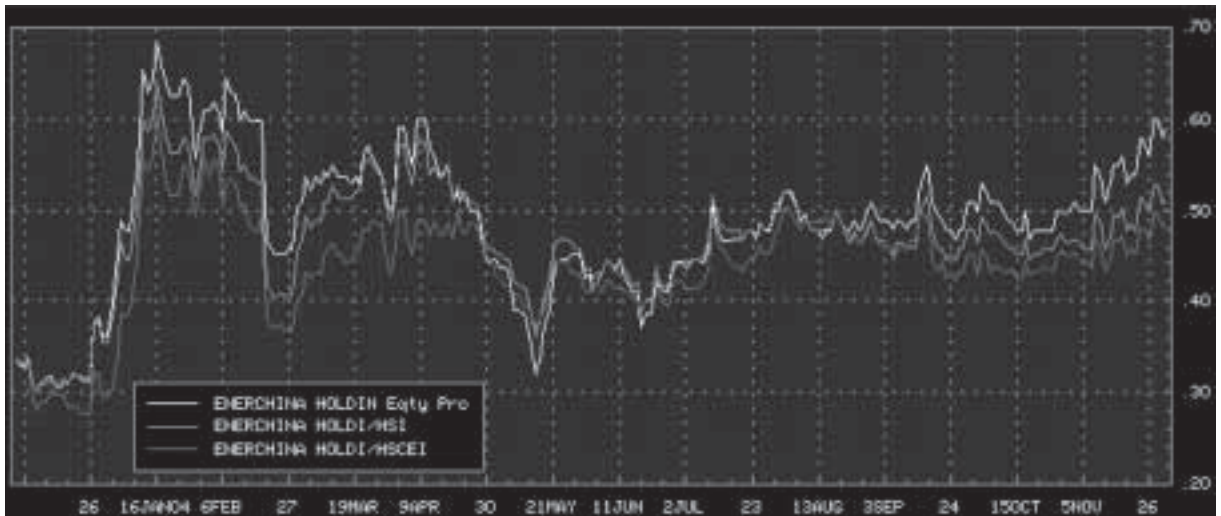
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month, three months, six months and one year prior to the Suspension. The chart below shows the daily closing price and the respective trading volume of the Enerchina Shares on the Stock Exchange during the period from 3 December 2003 to 2 December 2004 (the "One-year Period"):



Source: Bloomberg

We then examined the price of the Enerchina Share against the Hang Seng Index and Hang Seng China Enterprises Index during the One-year Period to assess its relative performance to both indices. The following chart shows the relative performance of Enerchina Shares against the Heng Seng Index and the Hang Seng China Enterprises Index.



Source: Bloomberg

As shown in the above chart, the price performance of the Enerchina Shares tracked quite closely the Hang Seng Index and the Hang Seng China Enterprises Index in the One-year Period. We note that the Share Offer Price represents a premium of approximately 6.8% to approximately 10.5% over the average closing price for a 10-day period prior to the Suspension, to which reference of the Share Offer Price is more relevant as the prices then were more reflective of the market value of Enerchina at the time of the Acquisition.

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Having considered the above as a whole and taking into account that the Acquisition will enable the Company to gain statutory control of Enerchina and be able to consolidate the financial results of Enerchina into the Enlarged Group, we are of the view that the Share Offer Price is fair and reasonable.

2.2.2 Comparison of Share Offer Price to trading multiples of comparable companies

We have performed this analysis based on the trading multiples commonly used in the electricity generation industry, in particular price/earnings (“P/E”) ratio and the enterprise value (“EV”)/the consolidated earnings before interest, taxation, depreciation and amortisation (“EBITDA”) (“EV/EBITDA”) ratio.

The Share Offer Price implies a historical P/E ratio of approximately 3.7 times based on Enerchina’s earnings per share of approximately HK\$0.1723 for the year ended 31 December 2003. In addition, the EV of Enerchina implies a EV/EBITDA ratio of approximately 3.6 times based on the consolidated EBITDA of Enerchina for the year ended 31 December 2003 of approximately HK\$172.4 million.

We have reviewed the trading multiples of eight listed companies (the “Comparable Companies”), whose principal business is the generation and sale of electricity in the PRC and Hong Kong, which, in our view, are broadly comparable to Enerchina. The Comparable Companies have been selected after taking into account, including but not limited to, their scope of business, which largely focuses on electricity generation and supply, and their respective operating environment in the PRC and Hong Kong, which is generally akin to that of Enerchina.

Comparable Companies	Country	Bloomberg Code	P/E* ratio (times)	EV/EBITDA* ratio (times)
China Resources Power Holdings Company Ltd	Hong Kong	836 HK	20.2	77.5
Huaneng Power International Inc	Hong Kong	902 HK	14.4	10.0
Datang International Power Generation Company Ltd	Hong Kong	991 HK	18.9	8.5
Huadian Power International Company Ltd	Hong Kong	1071 HK	14.5	8.1
China Power International Holdings Ltd	Hong Kong	2380 HK	11.8	11.3
Guangzhou Hengyun Enterprises Holdings Ltd	PRC	000531 CH	16.0	8.7
Guangdong Electric Power Development Company Ltd	PRC	000539 CH	13.3	9.9
Guangdong Shaoneng Group Company Ltd	PRC	000601 CH	17.1	14.4
Average			15.8	18.5
The Share Offer Price			3.7	3.6

* Based on the closing price as at 2 December 2004

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Based on the closing prices as at 2 December 2004, which is the last trading date prior to the Announcement, the historical P/E ratios of the Comparable Companies ranged from approximately 11.8 times to approximately 20.2 times with an average of approximately 15.8 times. The implied P/E ratio of the Share Offer Price of approximately 3.7 times falls below both the average and the range of the P/E ratios of the Comparable Companies.

Based on the closing prices as at 2 December 2004, which is the last trading date prior to the Announcement, the historical EV/EBITDA ratios of the Comparable Companies ranged from approximately 8.1 times to approximately 77.5 times with an average of approximately 18.5 times. The implied EV/EBITDA ratio of the Share Offer Price of approximately 3.6 times also falls below both the average and the range of the EV/EBITDA ratios of the Comparable Companies.

Having considered the above as a whole, we are of the view that the Share Offer Price and the Option Offer Price are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

2.3. Funding of the Offers

On 6 December 2004, the Company as borrower entered into the Facility Agreement with the Lender in respect of a loan facility of up to HK\$460 million, secured over all the assets of the Company. The Facility shall be repaid in full 9 months after the date of the first drawdown under the Facility Agreement. The purpose of the Facility is to finance the Offers.

2.4 Disposal of 41% equity interest in Xin Hua Control by Enerchina

As set out in the Letter from the Board, Enerchina has entered into an equity transfer agreement on 16 December 2004 with Xin Hua Control, New China and an independent third party whereby Enerchina will dispose its entire issued share capital in New China and cancel all of its existing shareholder's loan due from New China (the "Disposal") for a cash consideration of US\$23,500,000 (equivalent to approximately HK\$182,830,000) (the "Consideration"). New China owns 41% equity interest in Xin Hua Control, which is principally engaged in the business of the manufacture and sale of control systems for power plants and large scale manufacturing plants.

The Directors are of the view that the Disposal, which involves the sale of a non-core asset by Enerchina, is in the interests of the Company. According to the announcement of the Company on 17 December 2004 in relation to the Disposal, the Consideration represents a premium of approximately 28.87% to the unaudited adjusted net asset value of Xin Hua Control as at 30 June 2004 of approximately RMB151,660,000 (equivalent to approximately HK\$141,870,000). As a result of the Disposal, Enerchina expects to record a gain on disposal of approximately HK\$95,000,000 based on the Consideration of approximately HK\$182,830,000 less book value of approximately HK\$87,000,000.

Under Rule 4 of the Takeovers Code, once a bona fide offer has been communicated to the board of an offeree company, or the board of an offeree company has reason to believe that a bona fide offer may be imminent, no action which could effectively result in an offer being frustrated, or in the shareholders of the offeree company being denied an opportunity to decide on the merits of an offer, shall be taken by the board of the offeree company in relation to the affairs of the company without the approval of the shareholders of the offeree company in general meeting. The Executive treats the Disposal as a frustrating action of Enerchina under Rule 4 of the Takeovers Code. Under Note 1 to Rule 4 of the Takeovers Code, the Executive may grant a waiver from the requirement of a shareholders' meeting if the offeror agrees to the relevant transaction. In relation to this, Enerchina has obtained a written consent for the Disposal from the Company. As such, Enerchina has applied to the Executive for and obtained a waiver from the requirement to obtain shareholders' approval in a general meeting of Enerchina in relation to the Disposal by Enerchina and the completion of the Disposal.

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Given that (i) the Disposal is in line with the business strategy of Enerchina and the Company; (ii) Enerchina will record a gain on disposal of approximately HK\$95,000,000 as a result of the Disposal and; (iii) the Directors have not taken into account the potential positive impact of the Disposal when making the Offers, we are of the view that the overall impact of the Disposal to the Offers is positive.

2.5 Financial impact of the Offers on the Company

We have assessed the financial impact of the Acquisition on the Company based on (i) the unaudited consolidated financial statements of the Group for the six months ended 30 June 2004; and (ii) the Financial Information of the Enlarged Group on a proforma basis, as set out in Appendix III of the Circular as follows:

2.5.1 Bank balances and cash per Share

Based on the unaudited consolidated assets and liabilities statement of the Group as at 30 June 2004, the unaudited consolidated bank balances and cash of the Group as at 30 June 2004 was approximately HK\$1,004,274,000. Following the Acquisition and based on the unaudited proforma adjusted consolidated assets and liabilities statement of the Enlarged Group, the unaudited proforma adjusted consolidated bank balances and cash of the Enlarged Group as at 30 June 2004 would be approximately HK\$1,905,664,000 (before the Disposal), and approximately HK\$2,088,494,000 (after the Disposal, which is subject to completion) taking into account the Consideration of approximately HK\$182,830,000 from the Disposal. Based on 2,333,452,240 Shares in issue as at the Latest Practicable Date, the proforma bank balances and cash per Share of the Enlarged Group would increase from approximately HK\$0.43 to approximately HK\$0.82 (before the Disposal) and approximately HK\$0.90 (after the Disposal, which is subject to completion), representing an increase of approximately 90% and 108% respectively.

2.5.2 Net asset value

Based on the unaudited consolidated assets and liabilities statement of the Group as at 30 June 2004, the unaudited consolidated net asset value of the Group as at 30 June 2004 was approximately HK\$2,210,278,000. Following the Acquisition and based on the unaudited consolidated assets and liabilities statement of the Enlarged Group, the unaudited proforma adjusted consolidated net asset value of the Enlarged Group as at 30 June 2004 would be approximately HK\$2,210,278,000 (before the Disposal), and approximately HK\$2,283,903,000 (after the Disposal, which is subject to completion) taking into account the gain on disposal (assuming no tax effect) of approximately HK\$95,000,000 from the Disposal and assuming acceptance of the Offers, save for Atlantic Cay International Limited and Warburg Pincus Ventures L.P. Based on 2,333,452,240 Shares in issue as at the Latest Practicable Date, the proforma net asset value per Share of the Enlarged Group would be unchanged at approximately HK\$0.95 (before the Disposal) and increase to approximately HK\$0.98 (after the Disposal, which is subject to completion), representing an increase of approximately 3%.

2.5.3 Gearing

Based on the unaudited consolidated assets and liabilities statement of the Group as at 30 June 2004, the unaudited consolidated total debts and the unaudited consolidated shareholders equity of the Group as at 30 June 2004 were approximately HK\$1,312,616,000 and approximately HK\$2,210,278,000 respectively. The gearing ratio, being the total debts divided by the shareholders' equity, of the Group as at 30 June 2004 was approximately 59%. Based on the unaudited proforma adjusted consolidated assets and liabilities statement of the Enlarged Group, the unaudited proforma adjusted consolidated total debts and the unaudited proforma adjusted consolidated shareholders equity of the Enlarged Group as at 30 June 2004 would be approximately HK\$2,933,372,000 and approximately HK\$2,210,278,000 respectively. Following the Acquisition, the proforma gearing ratio of the Enlarged Group as at 30 June 2004 would be approximately 133%. We have reviewed the gearing ratios of the Comparable Companies, which ranged from approximately 22% to approximately 102% with an average of approximately 65%. The proforma gearing ratio of the Enlarged Group as at 30 June 2004 of approximately 133% is higher than the industry norm.

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2.5.4 Working capital

Based on the unaudited consolidated assets and liabilities statement of the Group as at 30 June 2004, the unaudited consolidated current assets and unaudited consolidated current liabilities of the Group as at 30 June 2004 were approximately HK\$3,446,913,000 and approximately HK\$1,064,350,000 respectively. The current ratio, being the current assets divided by current liabilities, of the Group as at 30 June 2004 was approximately 3.24 times. Based on the unaudited proforma adjusted consolidated assets and liabilities statement of the Enlarged Group, the unaudited proforma adjusted consolidated current assets and the unaudited proforma adjusted consolidated current liabilities of the Enlarged Group as at 30 June 2004 would be approximately HK\$4,729,540,000 and approximately HK\$2,067,425,000 respectively. Following the Acquisition, the proforma current ratio of the Enlarged Group would be approximately 2.29 times. We have reviewed the current ratios of the Comparable Companies, which ranged from approximately 0.41 times to approximately 2.84 times with an average of approximately 1.17 times. We are of the view that the proforma current ratio of the Enlarged Group of approximately 2.29 times is in line with the industry norm.

Having considered the above as a whole, we are of the view that the overall financial impact of the Offers on the Company is positive.

OUR OPINION

Having considered the principal factors and reasons referred to above, we are of the view that the making of the Offers is fair and reasonable, and is in the interests of the Company and its Shareholders as a whole.

Yours faithfully,
For and on behalf of

Commerzbank AG Hong Kong Branch

Johnson Fu

Regional Head of Corporate Finance

Helen Ho

Head of Corporate Finance – M&A Advisory

A. SUMMARY OF FINANCIAL RESULTS OF THE GROUP

The following financial information has been extracted from the audited financial statements of the Group published in the Company's 2002 annual report and 2003 annual report respectively (except for the 2003 audited financial statements which were restated with reference to note 3 of the notes to the condensed financial statements of the Company's 2004 interim report) and the unaudited financial statements of the Group for the six months ended 30 June 2004.

	1.1.2004 to 30.6.2004 <i>HK\$'000</i> Unaudited	1.1.2003 to 31.12.2003 <i>HK\$'000</i> Audited and restated (<i>Note</i>)	1.1.2002 to 31.12.2002 <i>HK\$'000</i> Audited	1.1.2001 to 31.12.2001 <i>HK\$'000</i> Audited
Turnover	945,476	1,815,356	1,525,406	1,527,305
Cost of sales	(735,960)	(1,336,630)	(1,156,903)	(1,258,519)
Gross profit	209,516	478,726	368,503	268,786
Other operating income	10,674	25,511	20,953	32,850
Distribution costs	(34,433)	(52,512)	(46,380)	(48,233)
Administration costs	(63,551)	(130,649)	(117,081)	(101,503)
Other operating expenses	(3,657)	(15,159)	(3,509)	(5,912)
Profit from operation	118,549	305,917	222,486	145,988
Finance costs	(6,467)	(10,630)	(4,350)	(6,844)
Gain on disposal of subsidiaries	3,898	293,817	195,908	44,466
Release of deferred gain on disposal of a subsidiary	–	77,000	–	–
Gain (loss) on disposal of associates	–	133,209	(234)	422
Gain on partial disposal of an associate	–	2,677	–	–
Amortisation of goodwill of an associate	–	(2,724)	(1,816)	–
Loss on deemed disposal arising from dilution of interests in a subsidiary	(3,917)	–	–	–
Share of results of associates	12,211	5,981	(22,749)	(360)
Profit before taxation	124,274	805,247	389,245	183,672
Taxation	(9,334)	(48,654)	(16,068)	(10,499)
Profit before minority interests	114,940	756,593	373,177	173,173
Minority interests	(47,890)	(126,658)	(78,748)	(56,202)
Net profit for the period/year	<u>67,050</u>	<u>629,935</u>	<u>294,429</u>	<u>116,971</u>
Dividends	<u>34,781</u>	<u>114,736</u>	<u>55,483</u>	<u>60,639</u>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share				
Basic	<u>2.92</u>	<u>33.78</u>	<u>16.17</u>	<u>7.00</u>
Diluted	<u>2.90</u>	<u>33.05</u>	<u>15.40</u>	<u>6.63</u>

Note: The audited financial statements for the year ended 31 December 2003 had been restated, details of which are stated in note 3 to the notes to the condensed financial statements of the Company's 2004 Interim Report.

B. INTERIM FINANCIAL INFORMATION (reproduced from the Company's interim report for the six months ended 30 June 2004)

The following has been extracted from the unaudited consolidated interim report of the Group for the six months ended 30 June 2004.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

	<i>Notes</i>	Six months ended	
		30.6.2004 <i>HK\$'000</i> (unaudited)	30.6.2003 <i>HK\$'000</i> (unaudited)
Turnover	4	945,476	871,311
Cost of sales		(735,960)	(682,379)
Gross profit		209,516	188,932
Other operating income		10,674	12,919
Distribution expenses		(34,433)	(22,216)
Administrative expenses		(63,551)	(52,266)
Other operating expenses		(3,657)	(3,913)
Profit from operations	5	118,549	123,456
Finance costs		(6,467)	(3,834)
Loss on deemed disposal arising from dilution of interest in a subsidiary		(3,917)	–
Gain on disposal of a subsidiary		3,898	–
Share of results of associates		12,211	6,626
Profit before taxation		124,274	126,248
Taxation	6	(9,334)	(4,653)
Profit before minority interests		114,940	121,595
Minority interests		(47,890)	(44,577)
Net profit for the period		<u>67,050</u>	<u>77,018</u>
Interim dividend declared of HK1.5 cents (2003: HK3.0 cents) per share	7	<u>34,781</u>	<u>55,564</u>
Earnings per share	8		
Basic		<u>HK2.92 cents</u>	<u>HK3.47 cents</u>
Diluted		<u>HK2.90 cents</u>	<u>HK3.40 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

	<i>NOTES</i>	30.6.2004 <i>HK\$'000</i> (unaudited)	31.12.2003 <i>HK\$'000</i> (audited and restated)
Non-current assets			
Property, plant and equipment	9	853,375	668,403
Intangible asset		9,411	9,662
Goodwill	10	29,543	21,443
Negative goodwill		(16,189)	(18,022)
Interests in associates		423,154	184,552
Investments in securities		84,005	83,917
		<u>1,383,299</u>	<u>949,955</u>
Current assets			
Stock of properties		1,776,936	1,639,994
Inventories		33,638	36,417
Trade and other receivables	11	631,939	619,385
Amount due from an associate		–	75,000
Amounts due from minority shareholders		–	11,246
Investments in securities		126	50,126
Bank balances and cash		1,004,274	1,309,473
		<u>3,446,913</u>	<u>3,741,641</u>
Current liabilities			
Trade and other payables	12	267,323	327,912
Tax liabilities		55,761	61,156
Amounts due to minority shareholders		8,665	6,523
Borrowings – due within one year	13	732,601	669,056
		<u>1,064,350</u>	<u>1,064,647</u>
Net current assets		<u>2,382,563</u>	<u>2,676,994</u>
Total assets less current liabilities		3,765,862	3,626,949
Non-current liabilities			
Borrowings – due after one year	13	580,015	565,655
		3,185,847	3,061,294
Minority interests		975,569	874,556
		<u>2,210,278</u>	<u>2,186,738</u>
Capital and reserves			
Share capital	14	231,816	191,104
Reserves		1,978,462	1,995,634
		<u>2,210,278</u>	<u>2,186,738</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Share capital	Share premium account	Properties revaluation account	Translation reserve	Goodwill reserve	General reserve	Capital reserve	Contributed surplus	Accum- ulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	184,944	332,402	8,851	(6,215)	2,591	60,031	781	367,782	628,049	1,579,216
Exchange rate adjustment not recognised in the income statement	-	-	-	(724)	-	-	-	-	-	(724)
Shares issued at premium	6,160	38,457	-	-	-	-	-	-	-	44,617
Addition during the year	-	-	-	122	-	483	-	-	-	605
Realised on disposal of subsidiaries	-	-	(64)	(19)	-	(75)	32	-	-	(126)
Realised on partial disposal of a subsidiary – restated	-	-	(335)	87	41	(295)	(152)	-	-	(654)
Realised on disposal of associates	-	-	(5,323)	(309)	-	(3,165)	(58)	-	-	(8,855)
Transfer from profit and loss account	-	-	-	-	-	958	-	-	(958)	-
Profit for the year – restated	-	-	-	-	-	-	-	-	629,935	629,935
Dividend	-	-	-	-	-	-	-	-	(57,276)	(57,276)
At 1 January 2004 – restated	191,104	370,859	3,129	(7,058)	2,632	57,937	603	367,782	1,199,750	2,186,738
Exchange rate adjustment not recognised in the income statement	-	-	-	4	-	-	-	-	-	4
Shares issued at premium	2,406	11,540	-	-	-	-	-	-	-	13,946
Bonus issue	38,306	(38,306)	-	-	-	-	-	-	-	-
Transfer from profit and loss account	-	-	-	-	-	260	-	-	(260)	-
Profit for the period	-	-	-	-	-	-	-	-	67,050	67,050
Dividend	-	-	-	-	-	-	-	-	(57,460)	(57,460)
At 30 June 2004	<u>231,816</u>	<u>344,093</u>	<u>3,129</u>	<u>(7,054)</u>	<u>2,632</u>	<u>58,197</u>	<u>603</u>	<u>367,782</u>	<u>1,209,080</u>	<u>2,210,278</u>
At 1 January 2003	184,944	332,402	8,851	(6,215)	2,591	60,031	781	367,782	628,049	1,579,216
Exchange rate adjustment not recognised in the income statement	-	-	-	(701)	-	-	-	-	-	(701)
Shares issued at premium	50	116	-	-	-	-	-	-	-	166
Share issue expenses	-	(1,084)	-	-	-	-	-	-	-	(1,084)
Issue expenses on convertible bonds	-	(10,233)	-	-	-	-	-	-	-	(10,233)
Addition during the period	-	-	-	-	20	-	(88)	-	-	(68)
Transfer from profit and loss account	-	-	-	-	-	(309)	-	-	309	-
Profit for the period	-	-	-	-	-	-	-	-	77,018	77,018
At 30 June 2003	<u>184,994</u>	<u>321,201</u>	<u>8,851</u>	<u>(6,916)</u>	<u>2,611</u>	<u>59,722</u>	<u>693</u>	<u>367,782</u>	<u>705,376</u>	<u>1,644,314</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	Six months ended	
	30.6.2004	30.6.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Net cash (used in) from operating activities	(159,216)	102,108
Net cash used in investing activities	(189,989)	(96,048)
Net cash from financing activities		
Proceeds from issue of convertible bonds	–	389,750
Repayment of convertible note	–	(40,800)
Other financing cash flows	44,006	(30,590)
	44,006	318,360
(Decrease) increase in cash and cash equivalents	(305,199)	324,420
Bank balances and cash at beginning of the period	1,309,473	470,641
Effect of foreign exchange rate changes	–	(994)
Bank balances and cash at end of the period	<u>1,004,274</u>	<u>794,067</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

1. General

The Company was incorporated in Bermuda as an exempt company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Asia Pacific Promotion Limited, a private limited company incorporated in the British Virgin Islands (the "BVI").

The principal activities of the Group are property development and sale and distribution of liquefied petroleum gas and natural gas ("Gas fuel") and construction of gas pipelines.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. Accounting Policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2003.

3. Prior Period Adjustments

Pursuant to the agreement dated 4 December 2003 in relation to the placing of certain shares in a subsidiary, Panva Gas Holdings Limited ("Panva Gas"), a gain on partial disposal has been recognised in the consolidated income statement for the year ended 31 December 2003. The entire sale proceeds of the placing of shares was then applied for the subscription of the same amount of shares which was approved on 5 January 2004. Subsequently, the board of directors considered that these transactions should be accounted for as one transaction in view of their nature. Accordingly, it resulted in an adjustment to reduce net profit for the year ended 31 December 2003 amounted to approximately HK\$148 million with a corresponding reduction of the opening balance of the accumulated profits as at 1 January 2004. In addition, the Group's other reserves and minority interests as at 31 December 2003 was increased by approximately HK\$1 million and HK\$170 million respectively while the trade and other payables as at 31 December 2003 was decreased by approximately HK\$23 million. The effect of such change had no impact on the net profit for the six months period ended 30 June 2004.

In addition, an adjustment has been made to reduce goodwill arised on the conversion of convertible note into the shares of Panva Gas and other payables of approximately HK\$63 million as at 31 December 2003.

4. Segment Information

For management purposes, the Group is currently organised into three operating divisions – property development, gas fuel business and others. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's turnover and contribution to profit from operations for the six months ended 30 June 2004 is as follows:

30 June 2004

	Property development	Gas fuel business	Others (Note)	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER					
External	83,217	848,634	13,625	–	945,476
Inter-segment	–	–	4,771	(4,771)	–
Total	<u>83,217</u>	<u>848,634</u>	<u>18,396</u>	<u>(4,771)</u>	<u>945,476</u>
SEGMENT RESULT	<u>10,592</u>	<u>126,463</u>	<u>2,691</u>	<u>–</u>	139,746
Other operating income					10,674
Unallocated corporate expenses					(31,871)
Profit from operations					<u>118,549</u>

30 June 2003

	Property development	Gas fuel business	Others (Note)	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER					
External	155,228	702,990	13,093	–	871,311
Inter-segment	–	–	4,771	(4,771)	–
Total	<u>155,228</u>	<u>702,990</u>	<u>17,864</u>	<u>(4,771)</u>	<u>871,311</u>
SEGMENT RESULT	<u>17,384</u>	<u>116,878</u>	<u>2,141</u>	<u>–</u>	136,403
Other operating income					12,919
Unallocated corporate expenses					(25,866)
Profit from operations					<u>123,456</u>

Note: Others include income from decoration, interior design work and property management services.

Inter-segment sales are charged at normal commercial terms.

The Group's turnover and profit from operations are substantially derived from operation in the People's Republic of China ("PRC"). Accordingly, no geographical segment information is presented.

5. Depreciation and Amortisation

During the period, depreciation of HK\$19,932,000 (six months ended 30.6.2003: HK\$15,212,000) was charged in respect of the Group's property, plant and equipment and amortisation of HK\$852,000 (six months ended 30.6.2003: HK\$609,000) was charged to administrative expenses in respect of the Group's goodwill. HK\$284,000 (six months ended 30.6.2003: HK\$1,027,000) was released in respect of the Group's negative goodwill.

6. Taxation

	Six months ended	
	30.6.2004	30.6.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Charge for the period		
PRC, excluding Hong Kong	9,334	4,653
	<u> </u>	<u> </u>

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Pursuant to relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries established in the PRC are exempted from paying income tax for the first two years starting from their first profitable year of operation, followed by a 50 per cent. reduction from the third to fifth year. Provision for PRC income tax is provided for with reference to the applicable tax rates on the estimated assessable profits of those subsidiaries for the period.

7. Dividend

The directors have resolved to declare an interim dividend of HK1.5 cents per share (six months ended 30.6.2003: HK3.0 cents per share) in respect of six months ended 30 June 2004. The interim dividend is payable on or before 21 October 2004 to shareholders whose names appear on the Register of Members of the Company on 15 October 2004.

8. Earnings Per Share

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

	Six months ended	
	30.6.2004	30.6.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings for the purpose of basic earnings per share	67,050	77,018
Effect of dilutive potential shares:		
Interest on convertible note	—	384
	<u> </u>	<u> </u>
Earnings for the purpose of diluted earnings per share	<u>67,050</u>	<u>77,402</u>
	Number of shares	
	30.6.2004	30.6.2003
Weighted average number of shares for the purpose of basic earnings per share	2,299,340,261	2,219,364,656
Effect of dilutive potential ordinary shares:		
Share options	16,315,955	2,352,358
Convertible note	—	51,000,000
	<u> </u>	<u> </u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>2,315,656,216</u>	<u>2,272,717,014</u>

Notes:

- a. The computation of diluted earnings per share does not assume the conversion of the subsidiary's outstanding convertible bonds for the six months ended 30 June 2004 as the conversion of those convertible bonds is anti-dilutive.
- b. The computation of basic and diluted earnings per share for the six months ended 30 June 2003 has been adjusted for the effect of bonus issue during the period.

9. Movements in Property, Plant and Equipment

	Property, plant and equipment <i>HK\$'000</i>
COST OR VALUATION	
At 1 January 2004	780,045
Acquisition of subsidiaries	88,361
Additions	125,265
Disposals	(11,298)
	<hr/>
At 30 June 2004	982,373
DEPRECIATION	
At 1 January 2004	111,642
Provided for the period	19,932
Eliminated on disposals	(2,576)
	<hr/>
At 30 June 2004	128,998
NET BOOK VALUE	
At 30 June 2004	<u>853,375</u>
At 31 December 2003	<u>668,403</u>

10. Goodwill

	<i>HK\$'000</i>
At 1 January 2004	
– as originally stated	84,551
– prior period adjustment	(63,108)
	<hr/>
– as restated	21,443
Addition	8,952
Amortisation	(852)
	<hr/>
At 30 June 2004	<u>29,543</u>

11. Trade and Other Receivables

The Group has a policy of allowing an average credit period ranging from 0 to 180 days to its customers. However, for the properties customers, general credit terms of up to 5 years are also allowed by the Group. Included in trade and other receivables are trade receivables of HK\$138,234,000 (31.12.2003: HK\$193,176,000), the aged analysis of which is as follows:

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged:		
0 to 90 days	88,667	136,789
91 to 180 days	24,713	47,109
181 to 360 days	21,037	3,743
Over 360 days	3,817	5,535
	<u>138,234</u>	<u>193,176</u>

12. Trade and Other Payables

Included in trade and other payables are trade payables of HK\$76,115,000 (31.12.2003: HK\$126,235,000), the aged analysis of which is as follows:

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged:		
0 to 90 days	54,076	108,256
91 to 180 days	4,421	2,203
181 to 360 days	1,041	1,836
Over 360 days	16,577	13,940
	<u>76,115</u>	<u>126,235</u>

13. Borrowings

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Bank loans		
– secured	209,682	219,953
– unsecured	595,862	516,770
Other loans		
– unsecured	10,056	972
Convertible note	125,000	125,000
Convertible bonds	372,016	372,016
	<u>1,312,616</u>	<u>1,234,711</u>
The maturity of the above loans is as follows:		
On demand or within one year	732,601	669,056
More than one year but not exceeding two years	205,379	191,020
More than two years but not exceeding five years	374,636	374,635
	<u>1,312,616</u>	<u>1,234,711</u>
<i>Less: Amount due within one year shown under current liabilities</i>	<u>(732,601)</u>	<u>(669,056)</u>
Non-current portion	<u>580,015</u>	<u>565,655</u>

The amount of HK\$125,000,000 of the convertible note being the exchangeable note issued by a subsidiary of the Company, would be exchangeable into shares of Panva Gas from the date of issue up to the second anniversary of the date of issue. The outstanding unconverted principal amount of the note will be redeemed on 31 October 2004 at par. Interest is payable at 2% per annum.

The convertible bonds were issued on 23 April 2003 by a subsidiary of the Company. The bonds are convertible into shares of the Panva Gas on or after 7 June 2003 and up to 9 April 2008. The outstanding unconverted principal amount of the bonds will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is payable per annum.

14. Share Capital

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Shares of HK\$0.10 each		
<i>Authorised:</i>		
4,800,000,000 shares of HK\$0.10 each	<u>480,000</u>	<u>480,000</u>
<i>Issued and fully paid:</i>		
2,318,162,240 shares (31.12.2003: 1,911,035,200) of HK\$0.10 each	<u>231,816</u>	<u>191,104</u>

A summary of the movement in the issued capital of the Company is as follows:

	No. of shares	HK\$'000
At 1 January 2004	1,911,035,200	191,104
Share options exercised	24,060,000	2,406
Bonus issue	<u>383,067,040</u>	<u>38,306</u>
At 30 June 2004	<u>2,318,162,240</u>	<u>231,816</u>

Note: On 6 March 2004, the Company issued 383,067,040 shares of HK\$0.1 each in the Company as bonus issue of shares on the basis of two new shares of HK\$0.1 each for every ten existing shares held by the shareholders of the Company by the way of capitalisation of the sum of HK\$38,306,000 standing to the credit of the share premium account of the Company.

15. Related Party Transactions

The following is a summary of significant related party transactions carried out during the period:

	Six months ended	
	30.6.2004 <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>
Skillful Assets Limited (<i>Note a & b</i>)		
– Rental paid thereto (<i>Note c</i>)	498	498
Enerchina Holdings Limited (<i>Note a</i>)		
– Interest received therefrom (<i>Note d</i>)	152	2,640
– Office expenses paid thereto (<i>Note e</i>)	<u>394</u>	<u>–</u>

Notes:

- Transactions with these related parties are regarded as connected transactions as set out in Chapter 14 of the Listing Rules.
- A company controlled by Mr. Ou Yaping and of which Mr. Ou Yaping is a director.
- Rental expenses were determined by the directors based on the directors' estimates of fair market value.
- The interest income was determined in accordance with the loan agreement.
- The office expenses were determined with reference to actual costs incurred.

16. Contingent Liabilities**THE GROUP**

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>

Guarantees given to banks as security for the mortgage loans arranged for the purchasers of the Group's properties

	<u>13,796</u>	<u>17,256</u>
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17. Capital Commitments

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>

Commitments in respect of properties under development:

– authorised but not contracted for

	502,190	881,292
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– contracted for but not provided in the financial statements

	<u>730,532</u>	<u>538,266</u>
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	1,232,722	1,419,558
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Commitments in respect of interest in subsidiaries contracted for but not provided in the financial statements

	<u>135,847</u>	<u>186,361</u>
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	<u>1,368,569</u>	<u>1,605,919</u>
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18. Pledge of Assets

The Group has pledged its land held under medium term leases included in the stock of properties, having a net book value of approximately HK\$217,247,000 (31 December 2003: HK\$388,030,000), to secure general banking facilities granted to a subsidiary of the Company.

In addition, the Group had pledged property, plant and equipment having a net book value of approximately HK\$62,166,000 (31 December 2003: HK\$43,963,000) to secure bank loans granted to the subsidiaries of the Company.

19. Post Balance Sheet Events

On 27 August 2004, the Group entered into a sale and purchase agreement with Changchun Municipality State-owned Assets Administrative Bureau ("Party A"), a local government authority responsible for the administration of the state owned assets within the city of Changchun and an independent third party ("Party B") whereby the Group and Party B shall acquire 48% and 2% of the equity interest in Changchun Gas Holdings Limited from Party A at total considerations of approximately HK\$354,724,000 and HK\$14,780,000 respectively.

20. Acquisition of Subsidiaries

During the period, the Group acquired 90% and 100% of the issued share capital of Yuechi Panva Gas Company Limited and Daiyi Panva Gas Company Limited respectively for an aggregate cash consideration of approximately HK\$47 million. These subsidiaries are engaged in the gas fuel business. These transactions have been accounted for using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	<i>HK\$'000</i>
Net assets acquired	37,821
Goodwill arising on acquisition	8,952
	<hr/>
Cash consideration	46,773
	<hr/> <hr/>
Net cash outflow arising on acquisition	
Cash consideration	46,773
Bank balances and cash acquired	(2,146)
	<hr/>
	44,627
	<hr/> <hr/>

The subsidiaries acquired during the period contributed HK\$37,520,000 to the Group's turnover and HK\$23,158,000 to the Group's profit from operations.

21. Disposal of a Subsidiary

During the period, the Group disposed of 深圳湖心島實業有限公司, a subsidiary of the Company and was engaged in property development. The effect of the disposal is summarised as follows:

	<i>HK\$'000</i>
Net assets disposed of	48,663
Gain on disposal	3,898
	<hr/>
Cash consideration	52,561
	<hr/> <hr/>
Net cash inflow arising on disposal	
Cash consideration	52,561
	<hr/> <hr/>

The subsidiary disposed of during the period did not have any significant impact on the Group's turnover and profit from operations.

C. AUDITED FINANCIAL INFORMATION (reproduced from the Company's annual report for the year ended 31 December 2003 but restated with reference to note 3 to the condensed financial statements of the Company's 2004 Interim Report)

Set out below is the audited and restated consolidated income statement, consolidated balance sheet, balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and notes to the financial statements reproduced from the audited accounts published in the Company's annual report for the year ended 31 December 2003, but restated with reference to the 2004 Interim Report.

Consolidated Income Statement

For the year ended 31 December 2003

	<i>NOTES</i>	2003 <i>HK\$'000</i> <i>(restated)</i> <i>Note</i>	2002 <i>HK\$'000</i>
Turnover	4	1,815,356	1,525,406
Cost of sales		<u>(1,336,630)</u>	<u>(1,156,903)</u>
Gross profit		478,726	368,503
Other operating income	5	25,511	20,953
Distribution costs		(52,512)	(46,380)
Administrative expenses		(130,649)	(117,081)
Other operating expenses		<u>(15,159)</u>	<u>(3,509)</u>
Profit from operations	6	305,917	222,486
Finance costs	8	(10,630)	(4,350)
Gain on disposal of subsidiaries	9	293,817	195,908
Release of deferred gain on disposal of a subsidiary	10	77,000	–
Gain (loss) on disposal of associates		133,209	(234)
Gain on partial disposal of an associate		2,677	–
Amortisation of goodwill of an associate		(2,724)	(1,816)
Share of results of associates		<u>5,981</u>	<u>(22,749)</u>
Profit before taxation		805,247	389,245
Taxation	11	<u>(48,654)</u>	<u>(16,068)</u>
Profit before minority interests		756,593	373,177
Minority interests		<u>(126,658)</u>	<u>(78,748)</u>
Net profit for the year		<u><u>629,935</u></u>	<u><u>294,429</u></u>
Dividends	12	<u>114,736</u>	<u>55,483</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	13		
Basic		<u>33.78</u>	<u>16.17</u>
Diluted		<u>33.05</u>	<u>15.40</u>

Note: The audited financial statements for the year ended 31 December 2003 had been restated, details of which are stated in note 3 to the notes to the condensed financial statements of the Company's 2004 Interim Report.

Consolidated Balance Sheet*At 31 December 2003*

	<i>NOTES</i>	2003 <i>HK\$'000</i> (restated)	2002 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>14</i>	668,403	432,675
Intangible asset	<i>15</i>	9,662	–
Goodwill	<i>16</i>	21,443	22,659
Negative goodwill	<i>17</i>	(18,022)	(26,585)
Interests in associates	<i>19</i>	184,552	129,882
Investment in securities	<i>20</i>	83,917	117,949
Trade receivable	<i>23</i>	–	1,269
		<u>949,955</u>	<u>677,849</u>
Current assets			
Stock of properties	<i>21</i>	1,639,994	1,644,354
Inventories	<i>22</i>	36,417	23,751
Trade and other receivables	<i>23</i>	619,385	278,720
Amount due from an associate	<i>24</i>	75,000	197,000
Amounts due from minority shareholders	<i>27</i>	11,246	41,276
Investment in securities	<i>20</i>	50,126	31,455
Bank balances and cash		1,309,473	470,641
		<u>3,741,641</u>	<u>2,687,197</u>
Current liabilities			
Trade and other payables	<i>25</i>	327,912	280,658
Tax liabilities		61,156	30,822
Amounts due to minority shareholders	<i>27</i>	6,523	23,537
Borrowings – due within one year	<i>28</i>	669,056	14,599
		<u>1,064,647</u>	<u>349,616</u>
Net current assets		<u>2,676,994</u>	<u>2,337,581</u>
Total assets less current liabilities		3,626,949	3,015,430
Non-current liabilities			
Borrowings – due after one year	<i>28</i>	(565,655)	(904,480)
Deferred gain on disposal of a subsidiary	<i>31</i>	–	(77,000)
		<u>(565,655)</u>	<u>(981,480)</u>
		<u>3,061,294</u>	<u>2,033,950</u>
Minority interests		<u>(874,556)</u>	<u>(454,734)</u>
		<u>2,186,738</u>	<u>1,579,216</u>
Capital and reserves			
Share capital	<i>29</i>	191,104	184,944
Reserves	<i>30</i>	1,995,634	1,394,272
		<u>2,186,738</u>	<u>1,579,216</u>

Balance Sheet*At 31 December 2003*

	<i>NOTES</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>14</i>	234	1,359
Investments in subsidiaries	<i>18</i>	905,497	878,333
Interest in an associate	<i>19</i>	246,591	163,563
Investments in securities	<i>20</i>	–	116,000
		<u>1,152,322</u>	<u>1,159,255</u>
Current assets			
Trade and other receivables		11,472	14,506
Investment in securities	<i>20</i>	50,000	5,512
Amount due from an associate	<i>24</i>	75,000	197,000
Bank balances and cash		754,533	181,202
		<u>891,005</u>	<u>398,220</u>
Current liabilities			
Trade and other payables		598,150	1,267
Amounts due to subsidiaries	<i>26</i>	263,059	325,855
		<u>861,209</u>	<u>327,122</u>
Net current assets		<u>29,796</u>	<u>71,098</u>
Total assets less current liabilities		<u>1,182,118</u>	<u>1,230,353</u>
Non-current liabilities			
Borrowings	<i>28</i>	–	(81,600)
		<u>1,182,118</u>	<u>1,148,753</u>
Capital and reserves			
Share capital	<i>29</i>	191,104	184,944
Reserves	<i>30</i>	991,014	963,809
		<u>1,182,118</u>	<u>1,148,753</u>

Consolidated Statement of Changes in Equity*For the year ended 31 December 2003*

	Share capital	Share premium account	Properties revaluation account	Translation reserve	Goodwill reserve	General reserve	Capital reserve	Contributed surplus	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note 30)	HK\$'000 (Restated)	HK\$'000 (Restated)
At 1 January 2002	167,200	278,653	19,462	(5,710)	(5,920)	57,722	858	368,262	395,233	1,275,760
Exchange rate adjustment not recognised in the income statement	-	-	-	(211)	-	-	-	-	-	(211)
Realised on disposal of a subsidiary	-	-	(10,611)	(294)	8,511	(3,821)	(77)	(480)	-	(6,772)
Shares issued at premium	17,744	53,749	-	-	-	-	-	-	-	71,493
Transfer from profit and loss account	-	-	-	-	-	6,130	-	-	(6,130)	-
Profit for the year	-	-	-	-	-	-	-	-	294,429	294,429
Dividend	-	-	-	-	-	-	-	-	(55,483)	(55,483)
At 31 December 2002	184,944	332,402	8,851	(6,215)	2,591	60,031	781	367,782	628,049	1,579,216
Exchange rate adjustment not recognised in the income statement	-	-	-	(724)	-	-	-	-	-	(724)
Shares issued at premium	6,160	38,457	-	-	-	-	-	-	-	44,617
Addition during the year	-	-	-	122	-	483	-	-	-	605
Realised on disposal of subsidiaries	-	-	(64)	(19)	-	(75)	32	-	-	(126)
Realised on partial disposal of a subsidiary	-	-	(335)	87	41	(295)	(152)	-	-	(654)
Realised on disposal of associates	-	-	(5,323)	(309)	-	(3,165)	(58)	-	-	(8,855)
Transfer from profit and loss account	-	-	-	-	-	958	-	-	(958)	-
Profit for the year	-	-	-	-	-	-	-	-	629,935	629,935
Dividend	-	-	-	-	-	-	-	-	(57,276)	(57,276)
At 31 December 2003	191,104	370,859	3,129	(7,058)	2,632	57,937	603	367,782	1,199,750	2,186,738

Consolidated Cash Flow Statement*For the year ended 31 December 2003*

	2003 <i>HK\$'000</i> (Restated)	2002 <i>HK\$'000</i>
OPERATING ACTIVITIES		
Profit before taxation	805,247	389,245
Adjustment for:		
Share of results of associates	(5,981)	22,749
Interest income	(13,372)	(11,336)
Interest expense	10,355	3,821
Depreciation	34,033	31,730
Dividend income	(647)	(360)
Gain on disposal of subsidiaries	(293,817)	(195,908)
Release of deferred gain on disposal of a subsidiary	(77,000)	–
Gain on disposal of associates	(133,209)	–
Gain on partial disposal of an associate	(2,677)	–
Gain on disposal of investments in securities	–	(592)
Realised holding loss on investment in securities	2,307	29
Unrealised holding loss (gain) on investment in securities	36	(623)
Amortisation of goodwill	3,940	3,033
Amortisation of intangible asset	373	–
Release of negative goodwill	(2,244)	(1,855)
Loss on disposal of property, plant and equipment	10,033	2,203
Operating cash flows before movements in working capital	337,377	242,136
Decrease (increase) in stock of properties	37,687	(4,910)
(Increase) decrease in inventories	(11,346)	770
Decrease in trade and other receivables	(308,018)	(39,203)
Decrease in trade and other payables	(9,651)	(90,304)
Cash used in operations	46,049	108,489
Interest paid	(41,480)	(43,512)
Overseas tax paid	(15,322)	(15,749)
NET CASH (FROM) USED IN OPERATING ACTIVITIES	(10,753)	49,228

Consolidated Cash Flow Statement*For the year ended 31 December 2003*

	<i>NOTES</i>	2003 <i>HK\$'000</i> (Restated)	2002 <i>HK\$'000</i>
INVESTING ACTIVITIES			
Interest received		12,552	9,739
Dividend received		647	360
Purchase of property, plant and equipment		(206,042)	(195,568)
Proceeds from sale of property, plant and equipment		7,255	2,676
Investment in an associate		(112,056)	(29,707)
Purchase of intangible asset		(10,035)	–
Purchase of investments in securities		(80,145)	(136,438)
Redemption of PRC bonds		187	–
Redemption of convertible bonds		66,000	–
Proceeds from disposal of other investments		10,913	1,568
Repayment from an associate		159,773	–
Repayment of (advances to) minority shareholders		30,030	(35,692)
Disposal of subsidiaries	<i>31</i>	14,842	79,556
Acquisition of an associate		–	(81,800)
Disposal of associates		93,545	–
Net cash outflow in respect of purchase of a subsidiary	<i>32</i>	(15,173)	(33,322)
Net cash outflow in respect of partial acquisition of a subsidiary		(994)	–
Net cash inflow in respect of deemed and partial disposal of subsidiaries		600,532	124,551
NET CASH FROM (USED IN) INVESTING ACTIVITIES		<u>571,831</u>	<u>(294,077)</u>
FINANCING ACTIVITIES			
Dividends paid by subsidiaries to minority shareholders		(4,319)	(5,313)
Dividend paid to shareholders		(57,276)	(55,483)
Proceed from issue of shares		3,817	16,310
Net proceed from issue of convertible bonds		374,917	–
Proceed from issue of convertible note		–	125,000
New borrowings		26,887	20,186
Repayment of bank and other loans		(73,050)	–
Repayment to minority shareholders		(17,014)	–
Decrease in amount due from minority shareholders		23,792	49,563
NET CASH FROM FINANCING ACTIVITIES		<u>277,754</u>	<u>150,263</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		838,832	(94,586)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		470,641	565,438
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		–	(211)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		<u>1,309,473</u>	<u>470,641</u>

Notes to the Financial Statements*For the year ended 31 December 2003***1. GENERAL**

The Company is incorporated in Bermuda as an exempt company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Asia Pacific Promotion Limited, a private limited company incorporated in the British Virgin Islands (the "BVI").

The principal activities of the Group are property development and sale and distribution of liquefied petroleum gas and natural gas ("Gas fuel") and construction of gas pipelines. During 2002, it ceased its supply of electricity operation.

2. ADOPTION OF NEW AND REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income taxes
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In the current year, the Group has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The adoption of this standard has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared 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 date of acquisition or up to the effective date 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 acquisitions prior to 1 January 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet. Goodwill arising on the acquisition of an associate is included in the interests in associates in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to future losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Recognition of revenue*Development properties*

Income from properties developed for sale, where there are no pre-sales prior to completion of a development, is recognised on the execution of the sales and purchase agreement.

Income from properties pre-sold prior to completion of development is recognised over the period from the execution of the sales and purchase agreement to the completion of the development on the basis of development costs incurred to date as a proportion of estimated total development costs.

Income from outright sales of an entire property development project is recognised upon execution of the sale and purchase agreement.

Sales of electricity supply

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

Gas pipelines construction revenue

Gas pipelines construction revenue is recognised when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the period. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable.

Sales of goods

Sales of goods are recognised when goods are delivered and title has passed.

Income from decoration, interior design and related services

Income from decoration, interior design and related services is recognised using the percentage of completion method, measured by reference to the proportion that costs incurred to date to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Income from property management services

Income from property management services is recognised on provision of services.

Interest income

Interest income is accrued on a time proportion basis on the principal outstanding and at the rate applicable.

Dividend income

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

Stock of properties

Stock of properties includes properties under development and properties held for sale.

The carrying value of properties under development comprises the land cost together with development expenditure, which includes construction costs, capitalised interest and ancillary borrowing costs, plus attributable profits taken to date, less progress payments received and foreseeable losses. Attributable profit on pre-sale of properties under development is recognised over the course of the development. Profit recognised on pre-sale of properties during an accounting period is calculated by reference to the proportion of construction costs incurred up to the accounting date to total estimated construction costs to completion, with due allowance for contingencies.

Properties held for sale are classified under current assets and stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development cost attributable to the unsold properties. Net realisable value is the estimated price at which a property can be realised in the ordinary course of business less related selling expenses.

Investments in subsidiaries

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

A joint venture is treated as a subsidiary if, under the joint venture control, the Group had the power to govern the financial and operating policies of the joint venture so as to obtain benefits from its activities.

Interests 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 goodwill on acquisition less any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Investment securities

Investments securities are recognised on a trade-date basis and are initially measured at cost.

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 values, with unrealised gains and losses included in net profit or loss for the year.

Property, plant and equipment

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Other plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives on a straight line basis, after taking into consideration of their estimated residual values. The principal annual rates used are as follows:

Leasehold land	Over the unexpired term of lease or over the term of the equity joint venture contract, whichever is shorter
Buildings	3% to 10%
Plant and machinery	6% to 30%
Furniture, fixtures and equipment	18% to 40%
Motor vehicles	6% to 30%
Gas pipelines	3%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment 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, which includes all development expenditure and other direct costs, including interest expenses attributable to such projects, is stated at cost. Costs on completed construction work are transferred to property, plant and equipment.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets 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 losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that another SSAP.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on the translation of foreign currency borrowings used to finance net investments in overseas operations/subsidiaries are taken directly to reserves. Other profits and losses arising on exchange are dealt with in the income statement.

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 exchange reserve. Such translation differences are recognised as income or as expense in the period in which the operation is disposed of.

Exclusive operating right for city pipeline network

Exclusive operating right for city pipeline network is stated at cost less accumulated amortisation and any identified impairment loss. The cost incurred for the acquisition of exclusive operating right is capitalised and amortised on a straight-line basis over the estimated useful life of 20 years. The amortisation period and amortisation method are reviewed annually at each financial year and for appropriateness.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Decoration work in progress comprises direct material and labour cost plus attributable profits taken to date less deposits received and provision for any foreseeable losses.

Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the balance sheet date can be measured reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contracts costs will exceed contract revenue, the expected loss is recognised an expense immediately.

Convertible note

A convertible note is regarded as a liability until conversion occurs and the finance costs recognised in the income statement in respect of the convertible note are calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible note for each accounting period.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rental receivable or payable in respect of operating leases are credited or charged respectively to the income statement on a straight line basis over the terms of the respective leases.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represents the contributions payable in respect of the current year to the Group's defined contribution scheme and Mandatory Provident Fund Scheme ("MPF Scheme") in Hong Kong and the state – sponsored retirement plan for its employees in the PRC.

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 year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, 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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is 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.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(A) Business segments

For management purposes, the Group is currently organised into three operating divisions – property development, gas fuel business and others. These divisions are the basis on which the Group reports its primary segment information. Principal activities are as follows:

Property development	–	sales of completed properties/development properties
Gas fuel business	–	wholesaling and retailing of gas fuel and the construction of gas pipelines
Others	–	decoration, interior design work and property management services

In prior years, the Group was also involved in the electricity supply. That operation was discontinued from 6 May 2002 (see note 10).

- (i) Segment information about these businesses for the year ended 31 December 2003 is presented below:

INCOME STATEMENT

	Continuing operations			Discontinuing operation	Eliminations HK\$'000	Consolidated HK\$'000 (Restated)
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	Electricity supply HK\$'000		
TURNOVER						
External sales	330,979	1,457,632	26,745	-	-	1,815,356
Inter-segment sales	-	-	9,542	-	(9,542)	-
	<u>330,979</u>	<u>1,457,632</u>	<u>36,287</u>	<u>-</u>	<u>(9,542)</u>	<u>1,815,356</u>
Inter-segment sales are charged at prevailing market prices.						
RESULT						
Segment result	26,625	291,848	5,549	-	-	324,022
Other operating income						25,511
Unallocated corporate expenses						(43,616)
Profit from operations						305,917
Finance costs						(10,630)
Gain on disposal of subsidiaries	(94)	306,598	(12,687)	-	-	293,817
Release of deferred gain on disposal of a subsidiary	-	-	-	77,000	-	77,000
Gain on disposal of associates	-	-	133,209	-	-	133,209
Gain on partial disposal of an associate	-	-	2,677	-	-	2,677
Amortisation of goodwill of an associate	-	-	(2,724)	-	-	(2,724)
Share of results of associates	-	-	5,981	-	-	5,981
Profit before taxation						805,247
Taxation						(48,654)
Profit before minority interests						756,593
Minority interests						(126,658)
Net profit for the year						<u>629,935</u>

BALANCE SHEET

	Continuing operations			Consolidated HK\$'000 (Restated)
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	
ASSETS				
Segment assets	1,993,050	2,103,802	92,762	4,189,614
Interest in associates			184,990	184,990
Unallocated corporate assets				316,992
Consolidated total assets				<u>4,691,596</u>
LIABILITIES				
Segment liabilities	166,766	151,185	5,820	323,771
Unallocated corporate liabilities				1,306,531
Consolidated total liabilities				<u>1,630,302</u>

OTHER INFORMATION

	Continuing operations			Consolidated HK\$'000
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	
Capital additions	15,478	273,359	59	288,896
Intangible asset additions	–	10,035	–	10,035
Depreciation and amortisation	12,071	23,142	3,133	38,346

- (ii) Segment information about these businesses for the year ended 31 December 2002 is presented below:

INCOME STATEMENT

	Continuing operations			Discontinuing operation	Eliminations HK\$'000	Consolidated HK\$'000
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	Electricity supply HK\$'000		
TURNOVER						
External sales	311,997	1,150,322	22,613	40,474	-	1,525,406
Inter-segment sales	-	-	9,542	-	(9,542)	-
	<u>311,997</u>	<u>1,150,322</u>	<u>32,155</u>	<u>40,474</u>	<u>(9,542)</u>	<u>1,525,406</u>
Inter-segment sales are charged at prevailing market prices.						
RESULT						
Segment result	<u>31,556</u>	<u>184,129</u>	<u>4,998</u>	<u>2,180</u>	<u>-</u>	<u>222,863</u>
Other operating income						20,924
Unallocated corporate expenses						<u>(21,301)</u>
Profit from operations						222,486
Finance costs						(4,350)
Gain on disposal of subsidiaries	-	111,860	-	84,048	-	195,908
Loss on disposal of an associate	(234)	-	-	-	-	(234)
Amortisation of goodwill of an associate	-	-	(1,816)	-	-	(1,816)
Share of results of associates	2,306	-	(25,055)	-	-	<u>(22,749)</u>
Profit before taxation						389,245
Taxation						<u>(16,068)</u>
Profit before minority interests						373,177
Minority interests						<u>(78,748)</u>
Net profit for the year						<u>294,429</u>

BALANCE SHEET

	Continuing operations			Discontinuing operation	Consolidated HK\$'000
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	Electricity supply HK\$'000	
ASSETS					
Segment assets	1,876,227	735,540	316,133	–	2,927,900
Interest in associates	36,303	–	93,579		129,882
Unallocated corporate assets					307,264
Consolidated total assets					<u>3,365,046</u>
LIABILITIES					
Segment liabilities	187,671	136,900	10,203	–	334,774
Unallocated corporate liabilities					996,322
Consolidated total liabilities					<u>1,331,096</u>

OTHER INFORMATION

	Continuing operations			Discontinuing operation	Consolidated HK\$'000
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	Electricity supply HK\$'000	
Capital additions	5,264	175,842	9,391	82,800	273,297
Goodwill additions	–	2,461	54,482	–	56,943
Depreciation and amortisation	<u>9,520</u>	<u>19,914</u>	<u>3,752</u>	<u>1,577</u>	<u>34,763</u>

(B) Geographical segments

As over 90% of the consolidated turnover, trading results and assets for the year is derived from or located in the PRC, an analysis of the consolidated turnover, trading results and assets by geographical location is not presented.

5. OTHER OPERATING INCOME

	2003 HK\$'000	2002 HK\$'000
Interest on bank deposits	13,372	11,336
Dividend income	647	360
Gain on disposal of investment in securities	–	592
Net exchange gain	1,162	918
Release of negative goodwill	2,244	1,855
Rental income under operating leases	2,608	2,195
Unrealised holding gain on investment in securities	–	623
Sundry	5,478	3,074
	<u>25,511</u>	<u>20,953</u>

6. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations is arrived at after charging:		
Auditors' remuneration		
Provided for the year	2,170	2,040
Under (over) provision in prior year	175	(332)
	<u>2,345</u>	<u>1,708</u>
Depreciation	34,033	31,730
Operating lease rentals	9,543	5,397
Loss on disposal of property, plant and equipment	10,033	2,203
Unrealised holding loss on investments in securities	36	-
Realised holding loss on investments in securities	2,307	29
Staff costs including directors' remuneration	82,863	78,986
Amortisation of intangible asset (included in administrative expenses)	373	-
Amortisation of goodwill (included in administrative expenses)	<u>1,216</u>	<u>1,217</u>

7. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

Details of the emoluments paid by the Group to the directors are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees	300	238
Salaries and other emoluments	8,303	8,417
Contributions to retirement benefits scheme	125	125
Discretionary bonuses	900	700
	<u>9,628</u>	<u>9,480</u>

The amounts disclosed above include directors' fees of HK\$300,000 (2002: HK\$237,500) payable to independent non-executive directors. No other emoluments were payable to independent non-executive directors.

The emoluments of the directors were within the following bands:

	Number of individuals	
	2003	2002
Emolument band (Hong Kong Dollars)		
\$Nil – \$1,000,000	4	4
\$1,000,001 – \$1,500,000	1	–
\$1,500,001 – \$2,000,000	1	3
\$2,000,001 – \$2,500,000	1	–
\$4,000,001 – \$4,500,000	<u>1</u>	<u>1</u>

Of the five individuals with the highest emoluments in the Group, four (2002: four) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining individual were as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Salaries and allowances	707	1,171
Contributions to retirement benefits scheme	19	–
	<u>726</u>	<u>1,171</u>

His emoluments were within the emolument band from HK\$nil to HK\$1,000,000 (2002: from HK\$1,000,001 to HK\$1,500,000).

8. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on		
Bank loans and other borrowing wholly repayable within five years	37,790	41,522
Convertible bonds	5,408	–
Convertible notes	484	1,248
	<hr/>	<hr/>
Total borrowing cost	43,682	42,770
Less: Amount capitalised to properties under development for sale	(33,327)	(38,949)
	<hr/>	<hr/>
Bank charges	10,355	3,821
Handling charge	275	244
	<hr/>	<hr/>
	–	285
	<hr/>	<hr/>
	<u>10,630</u>	<u>4,350</u>

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.8% (2002: 5.6%) to expenditure on qualifying assets.

9. GAIN ON DISPOSAL OF SUBSIDIARIES

	2003 HK\$'000 (Restated)	2002 HK\$'000
Gain on partial disposal of interests in subsidiaries	307,386	111,860
(Loss) gain on disposal of subsidiaries (<i>see note 31</i>)	(13,569)	84,048
	<hr/>	<hr/>
	<u>293,817</u>	<u>195,908</u>

Gain on partial disposal of interests in subsidiaries represented the gain arising on disposal of shares of Chenzhou Pan River Gas Industry Co., Ltd. and Panva Gas Holdings Limited respectively to third parties.

10. DISCONTINUING OPERATIONS

On 8 March 2002, the Group entered into a sales agreement to dispose of Sinolink Industrial Limited (“Sinolink Industrial”), which carried out all of the Group’s electricity supply operations. The disposal was completed on 6 May 2002, on which date control of Sinolink Industrial was passed to the acquirer.

The results of the electricity supply operations for the period from 1 January 2002 to 6 May 2002, which have been included in the consolidated financial statements were as follows:

	Period ended 6.5.2002 HK\$'000
Turnover	40,474
Cost of sales	(35,241)
Other operating income	179
Other operating expenses	(3,053)
Finance costs	(1,144)
	<hr/>
Profit before taxation	1,215
Tax Credit	3
	<hr/>
Profit after taxation	<u>1,218</u>

During 2002, Sinolink Industrial paid HK\$35,213,000 to the Group’s net operating cash flows, paid HK\$85,542,000 in respect of investing activities and contributed HK\$113,991,000 in respect of financing activities.

The carrying amounts of the assets and liabilities of Sinolink Industrial at the date of disposal is disclosed as follows:

	6.5.2002 HK\$'000
Total assets	<u>397,133</u>
Total liabilities	<u>(398,263)</u>

A gain of HK\$84 million during 2002 arose on the disposal of Sinolink Industrial, being the proceeds of disposal less the carrying amount of the subsidiary’s net assets and attributable goodwill (see note 31). No tax charge or credit arose from the transaction.

According to the sales agreement, the Group guaranteed the acquirer approximately RMB135,000,000 profit in respect of a subsidiary of Sinolink Industrial, Fuhuade for the two years ending 31 December 2003. Since the profit guarantee was met and the deferred gain of HK\$77 million on the disposal of Sinolink Industrial was released during the year.

11. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in nor derived from Hong Kong.

The tax rate applicable for all other PRC subsidiaries ranges from 15% to 33%.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years. The reduced tax rate for the relief period ranges from 12% to 16.5%. PRC enterprise income tax for the year has been provided for after taking these tax incentives into account.

The charge for the year can be reconciled to the profit in the consolidated income statement as follows:

	2003 <i>HK\$'000</i> (Restated)	2002 <i>HK\$'000</i>
Profit before taxation (excluding share of results of associates)	<u>799,266</u>	<u>411,994</u>
Tax at the applicable tax rate of 33% (2002: 33%)	263,758	135,958
Tax effect of tax losses not recognised	5,392	2,248
Tax effect of expenses not deductible for tax purpose	11,318	91,038
Tax effect of income that is exempted from PRC enterprise income tax and other regions outside Hong Kong in determining taxable profit	(183,707)	(194,922)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in PRC enterprise income tax rates and operating in different provinces	<u>(51,106)</u>	<u>(18,388)</u>
	45,655	15,934
Share of taxation of associates	<u>2,999</u>	<u>134</u>
Tax expenses	<u>48,654</u>	<u>16,068</u>

At the balance sheet date, the Group has unused tax losses of HK\$46,070,000 (2002: HK\$29,796,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Out of the unrecognised losses, HK\$1,400,000 (2002: Nil) has been expired. Included in unrecognised losses are losses of HK\$43,304,000 (2002: HK\$28,430,000) will be carried forward for five years from date of origination. Other losses may be carried forward indefinitely.

12. DIVIDENDS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Ordinary shares:		
Interim, paid – HK\$0.03 per share (2002: HK\$0.03)	57,276	55,483
Final, proposed – HK\$0.03 per share (2002: Nil)	<u>57,460</u>	<u>–</u>
	<u>114,736</u>	<u>55,483</u>

Pursuant to a resolution passed at a meeting of board of directors held on 21 April 2004, the directors of the Company recommended a bonus issue of new shares of HK\$0.10 each to shareholders of the Company on the basis of two shares for every ten shares held. The bonus issue of shares is subject to shareholders approval at the forthcoming annual general meeting of the Company to be held on 25 May 2004.

13. EARNINGS PER SHARE

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

	2003 <i>HK\$'000</i> (Restated)	2002 <i>HK\$'000</i>
Earnings for the purposes of basic earnings per share	629,935	294,429
Effect of dilutive potential shares:		
Interest on convertible note	489	824
Earnings for the purposes of diluted earnings per share	<u>630,424</u>	<u>295,253</u>
Weighted average number of shares for the purposes of basic earnings per share	1,865,048,000	1,820,292,000
Effect of dilutive potential ordinary shares:		
Options	4,133,000	15,133,000
Convertible note	38,564,000	81,450,000
Weighted average number of shares for the purposes of diluted earnings per share	<u>1,907,745,000</u>	<u>1,916,875,000</u>

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share warrants as the exercise price of those warrants is higher than the average market price for the Company's shares for both 2002 and 2003.

The computation of diluted earnings per share does not assume the conversion of the outstanding convertible bonds issued by Panva Gas as the conversion of those convertible bonds is anti-dilutive.

14. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold land and buildings in the PRC HK\$'000	Construction in progress HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Gas pipelines HK\$'000	Total HK\$'000
THE GROUP							
COST OR VALUATION							
At 1 January 2003	140,320	12,239	147,309	29,592	32,333	157,011	518,804
Acquisition of subsidiaries	5,988	46,518	1,376	245	200	28,527	82,854
Disposal of subsidiaries	(1,130)	–	(925)	(267)	(242)	–	(2,564)
Additions	12,620	30,317	4,696	13,139	8,761	136,509	206,042
Disposals	(14,264)	(4,044)	(111)	(490)	(6,180)	(2)	(25,091)
Transfer	3,559	(30,977)	2,687	210	85	24,436	–
At 31 December 2003	<u>147,093</u>	<u>54,053</u>	<u>155,032</u>	<u>42,429</u>	<u>34,957</u>	<u>346,481</u>	<u>780,045</u>
Comprising:							
At cost	–	54,053	155,032	42,429	34,957	346,481	632,952
At valuation 2003	<u>147,093</u>	–	–	–	–	–	<u>147,093</u>
	<u>147,093</u>	<u>54,053</u>	<u>155,032</u>	<u>42,429</u>	<u>34,957</u>	<u>346,481</u>	<u>780,045</u>
DEPRECIATION							
At 1 January 2003	20,509	–	28,852	17,912	13,743	5,113	86,129
Disposal of subsidiaries	(131)	–	(274)	(236)	(76)	–	(717)
Provided for the year	7,547	–	8,090	7,064	4,542	6,790	34,033
Eliminated on disposals	(3,952)	–	(10)	(406)	(3,435)	–	(7,803)
At 31 December 2003	<u>23,973</u>	–	<u>36,658</u>	<u>24,334</u>	<u>14,774</u>	<u>11,903</u>	<u>111,642</u>
NET BOOK VALUES							
At 31 December 2003	<u>123,120</u>	<u>54,053</u>	<u>118,374</u>	<u>18,095</u>	<u>20,183</u>	<u>334,578</u>	<u>668,403</u>
At 31 December 2002	<u>119,811</u>	<u>12,239</u>	<u>118,457</u>	<u>11,680</u>	<u>18,590</u>	<u>151,898</u>	<u>432,675</u>

The leasehold land and buildings of the Group in the PRC were valued at 31 January 2001 by Messrs. DTZ Debenham Tie Leung Limited, Chartered Surveyors, on an opened market value basis. Messrs. Diz Debenham Tie Leung Limited are not connected with the Group.

No professional valuation of the leasehold land and buildings was carried out at 31 December 2003 as, in the opinion of the directors, the carrying value of the leasehold land and buildings was not materially different from the open market value at 31 January 2001.

If the leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK\$78,160,000 (2002: HK\$66,322,000).

The Group had pledged property, plant and equipment with a net book value of approximately HK\$43,963,000 (2002: HK\$8,135,000) to secure banking facilities granted to the Group (note 40).

	Furniture, fixtures and equipment <i>HK\$'000</i>
THE COMPANY	
COST	
At 1 January 2003	2,409
Additions	59
Disposals	(1,503)
	<hr/>
At 31 December 2003	965
	<hr/>
DEPRECIATION	
At 1 January 2003	1,050
Provided for the year	412
Eliminated on disposals	(731)
	<hr/>
At 31 December 2003	731
	<hr/>
NET BOOK VALUE	
At 31 December 2003	234
	<hr/> <hr/>
At 31 December 2002	1,359
	<hr/> <hr/>

15. INTANGIBLE ASSET

THE GROUP
Exclusive operating
right for city
pipeline network
HK\$'000

COST	
Acquired during the year and at 31 December 2003	10,035
AMORTISATION	
Charge for the year and at 31 December 2003	(373)
	<hr/>
NET BOOK VALUE	
At 31 December 2003	9,662
	<hr/> <hr/>

The Group's exclusive operating right for city pipeline network was purchased from third parties.

The exclusive operating right is amortised on a straight line basis over 20 years.

16. GOODWILL

	THE GROUP 2003 <i>HK\$'000</i> (Restated)
COST	
At 1 January 2003 and at 31 December 2003	24,519
AMORTISATION	
At 1 January 2003	1,860
Provided for the year	1,216
At 31 December 2003	3,076
NET BOOK VALUE	
At 31 December 2003	<u>21,443</u>
At 31 December 2002	<u>22,659</u>

The amortisation period adopted for goodwill is 20 years.

17. NEGATIVE GOODWILL

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
GROSS AMOUNT		
At 1 January	(28,585)	(19,100)
Arising on acquisition during the year	(6,954)	(9,485)
Arising on acquisition of additional interest in a subsidiary	(2,130)	–
Eliminated on disposal during the year	19,100	–
	<u>(18,569)</u>	<u>(28,585)</u>
RELEASED TO INCOME		
At 1 January	2,000	145
Released to income in the year	1,296	1,855
Eliminated on disposal during the year	(2,749)	–
	<u>547</u>	<u>2,000</u>
CARRYING AMOUNT		
At 31 December	<u>(18,022)</u>	<u>(26,585)</u>

The negative goodwill in 2002 represented the Group's acquisition of an additional interest in Shenzhen Fuhuade Electric Power Co., Ltd. and interest in Weiyuan Panva Gas Co., Ltd. At the dates of acquisition, HK\$19,100,000 and HK\$9,485,000 of negative goodwill were identified respectively.

The negative goodwill in 2003 arose on the Group's acquisition of an additional interest in Chenzhou Pan River Gas Industry Co., Ltd. and interests in Lezhi Panva Gas Co., Ltd. and Pingchang Panva Gas Co., Ltd.. At the date of acquisition, HK\$2,130,000, HK\$1,195,000 and HK\$5,759,000 of negative goodwill were identified respectively.

The remaining negative goodwill is released to income on a straight line basis of 30 years, being the remaining weighted average useful life of the depreciable assets acquired.

18. INVESTMENTS IN SUBSIDIARIES

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	670,174	670,174
Amounts due from subsidiaries	235,323	208,159
	<u>905,497</u>	<u>878,333</u>

The amounts due from subsidiaries are interest-free, unsecured and have no fixed term of repayment. In the opinion of the directors, the amount will not be repayable within one year and therefore classified as non-current assets.

Particulars of the subsidiaries as at 31 December 2003 are as follows:

Name	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
Directly-owned subsidiaries				
Executive Choice Investments Limited	BVI	1 share of US\$1 each	100%	Investment holding
Kenson Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Leader Faith International Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink Progressive Limited	BVI	47,207 shares of US\$1 each	100%	Investment holding
Supreme All Investments Limited	BVI	1 share of US\$1 each	100%	Investment holding
Smart Orient Investments Limited	BVI	1 share of US\$1 each	100%	Investment holding
Indirectly-owned subsidiaries				
China Pan River Group Ltd.	BVI	12,821 shares of US\$1 each	100%	Investment holding
Chenzhou Pan River Gas Industry Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB9,000,000	60%	Wholesaling and retailing of LP Gas
China Overlink Holdings Co., Limited	BVI	1 share of US\$1 each	100%	Investment holding
Chizhou Panva Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB20,000,000	60%	The provision of LP Gas and related services and gas pipeline construction
Chuzhou YPC & Panva Energy Co., Limited	PRC – Sino-foreign equity joint venture	RMB1,000,000	60%	Wholesaling and retailing of LP Gas
Firstline Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Future Perfect Properties Limited	BVI	1 share of US\$1 each	100%	Property holding
Knatwood Limited	BVI	1 share of US\$1 each	100%	Investment holding

Name	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
Lezhi Panva Gas Co., Ltd.	PRC – Limited liability company	RMB14,800,000	100%	The provision of natural gas and related services and gas pipeline construction
Link Capital Investments Limited	BVI	50,000 shares of US\$1 each	100%	Investment holding
Jinan Panva Gas Co., Ltd.	PRC – Sino-foreign equity joint	RMB100,000,000	51%	The provision of LP Gas, natural gas and related services and gas pipeline construction
Nanjing Panva LPG Company Ltd.	PRC – Sino-foreign equity joint venture	RMB50,000,000	55%	Wholesaling and retailing of LP Gas
Nanjing Panva Pipeline Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	US\$1,010,000	77.95%	The provision of LP Gas and related services and gas pipeline construction
Ocean Diamond Limited	BVI	50,000 shares of US\$1 each	100%	Investment holding
Panriver Investments Company Limited	PRC – Limited liability company	US\$30,000,000	100%	Investment holding
Panva Gas Holdings Limited	Cayman Islands	779,097,891 shares of HK\$0.1 each	64.09%	Investment holding
Panva Gas (Yunnan) Co., Ltd.	PRC – Limited liability company	RMB58,840,000	56.94%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Changde) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB6,000,000	85%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Changsha) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB40,000,000	60%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Hengyang) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB6,000,000	84%	Wholesaling and retailing of LP Gas

Name	Place of incorporation/ establishment/ and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
Pan River Enterprises (Wuhu) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB32,000,000	55%	Wholesaling and retailing of LP Gas
Pan River Gas (China Southwest) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB16,000,000	50.10%	Wholesaling and retailing of LP Gas
Pengxi Panva Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB3,590,000	90%	The provision of natural gas and related services and gas pipeline construction
Pingchang Panva Gas Co., Ltd.	PRC – Limited liability company	RMB8,000,000	90%	The provision of natural gas and related services and gas pipeline construction
深圳湖心島實業有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	82%	Property development
Shenzhen China Overseas–Sinolink Property Management Co., Ltd.	PRC – Limited liability company	RMB1,500,000	100%	Property management
Shenzhen Mangrove West Coast Property Development Co. Ltd.	PRC – Sino-foreign equity joint venture	RMB10,000,000	100%	Property development
Shenzhen Sinolink Enterprises Co., Ltd.	PRC – Foreign equity joint venture	RMB375,000,000	80%	Property development
Shenzhen Sinolink Property Management Co., Ltd.	PRC – Foreign equity joint venture	RMB2,000,000	85%	Property management
Singkong Investments Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	Investment holding
Sinolink International Investment (Group) Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink LPG Development Limited	BVI	1 share of US\$1 each	100%	Investment holding

Name	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
Sinolink LPG Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink Petrochemical Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink Power Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink Properties Agent Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	Property agent
Sinolink Worldwide (HK) Company Limited	Hong Kong	10,000,000 ordinary shares of HK\$1 each	100%	Investment holding
Weiyuan Panva Gas Co., Ltd.	PRC – Limited liability company	RMB5,000,000	99.5%	The provision of natural gas and related services and gas pipeline construction
Xiangtan Pan River Energy Industry Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB10,000,000	55%	Wholesaling and retailing of LP Gas
Yangzi Petrochemical Baijiang Energy Resources Co., Ltd. (“Yangzi Panva”)	PRC – Sino-foreign equity joint venture	US\$7,230,000	50% (Note 1)	Wholesaling and retailing of LP Gas
Yangzhou YPC & Panva Gas Co., Ltd.	PRC – Limited liability company	RMB10,000,000	55%	Wholesaling and retailing of LP Gas
Yiyang Pan River Enterprises Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB5,000,000	60%	Wholesaling and retailing of LP Gas
Yongzhou Pan River Enterprises Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB5,000,000	60%	Wholesaling and retailing of LP Gas
Ziyang Panva Gas Co., Ltd.	PRC – Limited liability company	RMB9,890,000	90%	The provision of natural gas and related services and gas pipeline construction
Zunyi Pan River Gas Co., Ltd.	PRC – Limited liability company	RMB4,200,000	50.10%	Wholesaling and retailing of LP Gas

Note 1: Yangzi Panva is a subsidiary of the Company because the Company has control over the board of directors.

None of the subsidiaries had issued any debt securities at 31 December 2003 or at any time during the year except from Panva Gas Holdings Limited which has issued HK\$389,750,000 of convertible bonds, in which the Group has no interest.

19. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed shares at cost	–	–	246,591	163,563
Share of net assets	156,421	39,005	–	–
Amounts due from associates	–	10,908	–	–
Loan to an associate	–	27,303	–	–
Goodwill on acquisition of an associate	49,942	52,666	–	–
Negative goodwill on acquisition of an associate	(21,811)	–	–	–
	<u>184,552</u>	<u>129,882</u>	<u>246,591</u>	<u>163,563</u>
Market value of listed shares			<u>138,801</u>	<u>83,542</u>

The amounts due from associates are interest free and unsecured. The amount is classified under noncurrent assets as the directors are of the opinion that they will not be repaid in the forthcoming year.

Details of movements of goodwill and negative goodwill on acquisition of associates are as follows:

	GOODWILL		NEGATIVE GOODWILL	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST				
At beginning of the year	54,482	–	–	–
Acquired on purchase of an associate	–	54,482	(22,759)	–
At end of the year	<u>54,482</u>	<u>54,482</u>	<u>(22,579)</u>	<u>–</u>
AMORTISATION				
At beginning of the year	1,816	–	–	–
Provided for the year	2,724	1,816	–	–
Released to income in the year	–	–	948	–
At end of the year	<u>4,540</u>	<u>1,816</u>	<u>948</u>	<u>–</u>
NET BOOK VALUES				
At end of the year	<u>49,942</u>	<u>52,666</u>	<u>(21,811)</u>	<u>–</u>
At beginning of the year	<u>52,666</u>	<u>–</u>	<u>–</u>	<u>–</u>

The goodwill in 2002 represented the Group's acquisition of Enerchina Holdings Limited. At date of acquisition, HK\$54,482,000 of goodwill had been arisen. The amortisation period adopted for goodwill is 20 years.

The negative goodwill in 2003 arose on the acquisition of an additional interest in Enerchina Holdings Limited. The negative goodwill is released to income on a straight line basis of 20 years, being the remaining weighted average useful life of the depreciable assets acquired.

As at 31 December 2003, the Group had an interest in the following associate:

Name of associate	Place of incorporation/ establishment and operation	Issued and fully paid up registered capital	Proportion of nominal value of registered capital held by the Group	Principal activities
Enerchina Holdings Limited ("Enerchina")	Bermuda	762,762,968 shares of HK\$0.01 each	33.70%	Investment holding

20. INVESTMENT IN SECURITIES

	Held to maturity debt securities		Investment securities		Other investments		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP								
Equity securities								
Listed – Hong Kong	–	–	–	–	126	31,455	126	31,455
Unlisted	–	–	83,917	1,949	–	–	83,917	1,949
	<u>–</u>	<u>–</u>	<u>83,917</u>	<u>1,949</u>	<u>126</u>	<u>31,455</u>	<u>84,043</u>	<u>33,404</u>
Debt securities								
Unlisted	50,000	116,000	–	–	–	–	50,000	116,000
	<u>50,000</u>	<u>116,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>50,000</u>	<u>116,000</u>
Total								
Listed – Hong Kong	–	–	–	–	126	31,455	126	31,455
Unlisted	50,000	116,000	83,917	1,949	–	–	133,917	117,949
	<u>50,000</u>	<u>116,000</u>	<u>83,917</u>	<u>1,949</u>	<u>126</u>	<u>31,455</u>	<u>134,043</u>	<u>149,404</u>
Market value of listed securities	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>126</u>	<u>31,455</u>	<u>126</u>	<u>31,455</u>
Carrying amount analysed for reporting purposes as:								
Non-current	–	116,000	83,917	1,949	–	–	83,917	117,949
Current	50,000	–	–	–	126	31,455	50,126	31,455
	<u>50,000</u>	<u>116,000</u>	<u>83,917</u>	<u>1,949</u>	<u>126</u>	<u>31,455</u>	<u>134,043</u>	<u>149,404</u>

	Held to maturity debt securities		Investment securities		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
THE COMPANY						
Debt securities						
Unlisted	50,000	116,000	–	–	50,000	116,000
Equity securities						
Listed – Hong Kong	–	–	–	5,512	–	5,512
	<u>50,000</u>	<u>116,000</u>	<u>–</u>	<u>5,512</u>	<u>50,000</u>	<u>121,512</u>
Market value of listed securities	<u>–</u>	<u>–</u>	<u>–</u>	<u>5,512</u>	<u>–</u>	<u>5,512</u>
Carrying amount analysed for reporting purposes as:						
Non-current	–	116,000	–	–	–	116,000
Current	50,000	–	–	5,512	50,000	5,512
	<u>50,000</u>	<u>116,000</u>	<u>–</u>	<u>5,512</u>	<u>50,000</u>	<u>121,512</u>

21. STOCK OF PROPERTIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Properties under development for sale		
Cost plus attributable profit less foreseeable losses	1,478,668	1,383,645
Less: Progress payments received	–	(1,929)
	<u>1,478,668</u>	<u>1,381,716</u>
Stock of unsold properties	161,326	262,638
	<u>1,639,994</u>	<u>1,644,354</u>

Included in stock of properties is interest capitalised of HK\$119,132,000 (2002: HK\$85,809,000).

22. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
At cost:		
Gas fuel	23,442	11,512
Consumable stores	12,975	12,239
	<u>36,417</u>	<u>23,751</u>

23. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit terms ranging from 0 to 180 days to its customers. However, for the properties customers, general credit terms of up to 5 years are also allowed by the Group. Included in trade and other receivables are trade receivables totalling from HK\$193,176,000 (2002: HK\$114,327,000), the aged analysis of which is as follows:

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged:		
0 to 90 days	136,789	96,856
91 to 180 days	47,109	5,357
181 to 360 days	3,743	4,784
over 360 days	5,535	7,330
	<u>193,176</u>	<u>114,327</u>
Less: Non-current portion	–	(1,269)
	<u><u>193,176</u></u>	<u><u>113,058</u></u>

24. AMOUNT DUE FROM AN ASSOCIATE

The loan to associate is payable on demand and carries interests at the rate of 3% per annum semiannually. The payment of the amount is secured by the shares of Sinolink Industrial Limited, the shares of Sinolink Electric Power Co. Limited (“SEPCL”) and a letter of undertaking to be executed by SEPCL.

25. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$126,235,000 (2002: HK\$164,058,000), the aged analysis of which is as follows:

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged:		
0 to 90 days	108,256	140,461
91 to 180 days	2,203	121
181 to 360 days	1,836	804
over 360 days	13,940	22,672
	<u>126,235</u>	<u>164,058</u>

26. AMOUNTS DUE TO SUBSIDIARIES

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

27. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS

These balances are unsecured, interest free and repayable on demand.

28. BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans				
– secured	219,953	189,529	–	–
– unsecured	516,770	522,950	–	–
Other loans				
– unsecured	972	–	–	–
Convertible note	125,000	206,600	–	81,600
Convertible bonds	372,016	–	–	–
	<u>1,234,711</u>	<u>919,079</u>	<u>–</u>	<u>81,600</u>
The maturity of the above loans is as follows:				
On demand or within one year	669,056	14,599	–	–
More than one year but not exceeding two years	191,020	–	–	–
More than two years but not exceeding five years	374,635	904,480	–	81,600
	<u>1,234,711</u>	<u>919,079</u>	<u>–</u>	<u>81,600</u>
Less: Amount due within one year shown under current liabilities	<u>(669,056)</u>	<u>(14,599)</u>	<u>–</u>	<u>–</u>
Non-current portion	<u>565,655</u>	<u>904,480</u>	<u>–</u>	<u>81,600</u>

The interest rate paid on both bank and other loans during the year was based on prevailing markets rates.

During 2002, the convertible note due to a director, Mr. Ou Yaping, issued on 12 February 1999 was converted into 134,592,000 shares of the Company at an adjusted conversion price of HK\$0.41 per share.

During 2003, the convertible note due to a third party, Silvergrant International Industries Limited, issued on 6 May 2002 was partly converted into 51,000,000 shares of the Company at a conversion price of HK\$0.8 per share. The outstanding unconverted principal amount of the note was redeemed during the year at par.

The remaining amount of HK\$125,000,000, being the exchangeable note issued by a subsidiary of the Company, will be exchangeable into shares of Panva Gas from the date of issue up to the second anniversary of the date of issue. The outstanding unconverted principal amount of the note will be redeemed on 14 October 2004 at par. Interest is payable at 2% per annum.

The convertible bonds were issued on 23 April 2003 by a subsidiary of the Company. The bonds are convertible into shares of Panva Gas on or after 7 June 2003 and up to 9 April 2008. The outstanding unconverted principal amount of the bonds will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is paid per annum.

29. SHARE CAPITAL

	Number of shares		Share capital	
	2003	2002	2003 HK\$'000	2002 HK\$'000
<i>Authorised:</i>				
Shares of HK\$0.1 each				
Balance as at 1 January and as at 31 December	<u>4,800,000,000</u>	<u>4,800,000,000</u>	<u>480,000</u>	<u>480,000</u>
<i>Issued and fully paid:</i>				
Balance as at 1 January	1,849,437,000	1,672,000,000	184,944	167,200
Share options exercised (<i>note 35</i>)	10,571,000	42,845,000	1,057	4,285
Warrants exercised	27,200	–	3	–
Convertible note converted	<u>51,000,000</u>	<u>134,592,000</u>	<u>5,100</u>	<u>13,459</u>
Balance as at 31 December	<u>1,911,035,200</u>	<u>1,849,437,000</u>	<u>191,104</u>	<u>184,944</u>

Notes:

During 2002, the subscription rights attached to 15,950,000 shares, 26,675,000 shares and 220,000 share options were exercised at subscription prices of HK\$0.33, HK\$0.41 and HK\$0.5 per share respectively resulting in the issue of 42,845,000 shares of HK\$0.1 each in the Company for a total cash consideration before expenses of HK\$16,310,250.

On 8 February 2002, a convertible note of HK\$55,183,000 was converted into 134,592,000 shares of HK\$0.1 each in the Company at the price of HK\$0.41.

During 2003, the subscription rights attached to 7,051,000, 3,300,000 and 220,000 share options were exercised at subscription prices of HK\$0.33, HK\$0.41 and HK\$0.50 per share respectively resulting in the issue of 10,571,000 shares of HK\$0.1 each in the Company for a total cash consideration before expenses of HK\$3,789,830.

On 26 March 2003, a convertible note of HK\$40,800,000 was converted into 51,000,000 shares of HK\$0.1 each in the Company at the price of HK\$0.80.

All the shares which were issued during the year rank *pari passu* with the then existing shares in all respects.

30. RESERVES

	Share premium account HK\$'000	Properties revaluation reserve HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	General reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000 (Restated)	Total HK\$'000 (Restated)
THE GROUP									
At 1 January 2002	278,653	19,462	(5,710)	(5,920)	57,722	858	368,262	395,233	1,108,560
Exchange rate adjustment not recognised in the income statement	-	-	(211)	-	-	-	-	-	(211)
Realised on disposal of a subsidiary	-	(10,611)	(294)	8,511	(3,821)	(77)	(480)	-	(6,772)
Shares issued at premium	53,749	-	-	-	-	-	-	-	53,749
Transfer from profit and loss account	-	-	-	-	6,130	-	-	(6,130)	-
Profit for the year	-	-	-	-	-	-	-	294,429	294,429
Dividend	-	-	-	-	-	-	-	(55,483)	(55,483)
At 31 December 2002	332,402	8,851	(6,215)	2,591	60,031	781	367,782	628,049	1,394,272
Exchange rate adjustment not recognised in the income statement	-	-	(724)	-	-	-	-	-	(724)
Shares issued at premium	38,457	-	-	-	-	-	-	-	38,457
Addition during the year	-	-	122	-	483	-	-	-	605
Realised on disposal of subsidiaries	-	(64)	(19)	-	(75)	32	-	-	(126)
Realised on partial disposal of a subsidiary	-	(335)	87	41	(295)	(152)	-	-	(654)
Realised on disposal of an associate	-	(5,323)	(309)	-	(3,165)	(58)	-	-	(8,855)
Transfer from profit and loss account	-	-	-	-	958	-	-	(958)	-
Profit for the year	-	-	-	-	-	-	-	629,935	629,935
Dividend	-	-	-	-	-	-	-	(57,276)	(57,276)
At 31 December 2003	<u>370,859</u>	<u>3,129</u>	<u>(7,058)</u>	<u>2,632</u>	<u>57,937</u>	<u>603</u>	<u>367,782</u>	<u>1,199,750</u>	<u>1,995,634</u>

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1 January 2002	278,653	572,173	19,995	870,821
Premium arising on issue of shares	53,749	–	–	53,749
Profit for the year	–	–	94,722	94,722
Dividend	–	–	(55,483)	(55,483)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	332,402	572,173	59,234	963,809
Premium arising on issue of shares	38,457	–	–	38,457
Profit for the year	–	–	46,024	46,024
Dividend	–	–	(57,276)	(57,276)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>370,859</u>	<u>572,173</u>	<u>47,982</u>	<u>991,014</u>

Included in the above are the Group's share of post-acquisition reserves of its associate as follows:

	Accumulated loss <i>HK\$'000</i>
At 1 January 2003	(26,783)
Profit for the year, accumulated	5,981
Eliminated on disposal	(4,194)
	<hr/>
At 31 December 2003	<u>(24,996)</u>

The contributed surplus of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1998.

The contributed surplus of the Company represents the differences between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1998.

The general reserve represents the Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in accordance with the relevant laws and regulations of the PRC, which are not available for distribution.

The capital reserve represents the contribution from the minority shareholders of the subsidiaries waived.

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. 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.

In the opinion of the directors, the Company's reserves available for distribution to shareholders are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Contributed surplus	572,173	572,173
Retained earnings	47,982	59,234
	<hr/>	<hr/>
	<u>620,155</u>	<u>631,407</u>

31. DISPOSAL OF SUBSIDIARIES

During 2003 the Group disposed of four subsidiaries, I-Happy Profit Limited, Nanling Pan River LPG Co., Ltd., Shenzhen Weikong Decorate Engineering Co., Ltd. and Wuhu Pan River Jiangbei Enterprises Co., Ltd.. Their net assets at the date of disposal and at 31 December 2003 were as follows:

As referred to note 10, on 6 May 2002 the Group discontinued its electricity supply operations at the time of disposal of its subsidiary, Sinolink Industrial to Enerchina.

	2003 HK\$'000	2002 HK\$'000
Net (liabilities) assets disposed of:		
Property, plant and equipment	1,847	284,886
Interests in associate	–	564
Inventories	772	15,073
Trade receivables	100	9,613
Bank balances and cash	21	83,479
Other receivables, deposits and prepayments	10,672	3,518
Investments in securities	18,073	–
Trade payables	(1,438)	(7,028)
Other payables and accruals	(1,311)	(20,167)
Loan from a minority shareholder of a subsidiary	–	(27,301)
Shareholder's loan	–	(137,902)
Tax payable	–	(483)
Bank borrowings	–	(174,144)
Minority interests	(178)	(31,238)
	<u>28,558</u>	<u>(1,130)</u>
Realisation of reserves on disposal:		
Properties revaluation account	(64)	(10,611)
Translation reserve	(19)	(294)
Goodwill reserve	–	8,511
General reserve	(75)	(3,821)
Capital reserve	32	(77)
Contributed surplus	–	(480)
	<u>28,432</u>	<u>(7,902)</u>
Deferred gain on disposal	–	77,000
Unrealised gain on disposal	–	68,987
(Loss) gain on disposal	(13,569)	84,048
	<u>14,863</u>	<u>222,133</u>
Total consideration	<u>14,863</u>	<u>222,133</u>
Satisfied by:		
Cash consideration	14,863	163,035
Debt assignment	–	(137,902)
Loan	–	197,000
	<u>14,863</u>	<u>222,133</u>
Net cash inflow (outflow) arising on disposal:		
Cash received	14,863	163,035
Bank balance and cash disposed of	(21)	(83,479)
	<u>14,842</u>	<u>79,556</u>

According to the sale and purchase agreement dated 8 March 2002 (“Agreement”), the Group guaranteed Enerchina, approximately RMB135,000,000 of profit in respect of a subsidiary of Sinolink Industrial, Fuhuade for the two years ending 31 December 2003. Since the profit guarantee of Fuhuade was met at the balance sheet date, the deferred gain was released to income during the year. According to the Agreement, the balance of HK\$197,000,000 is payable on demand. During 2003, HK\$122,000,000 was settled in cash.

On 6 May 2002, the Group acquired 29.99% of Enerchina which then became an associate of the Group. Accordingly, part of the gain on disposal of Sinolink Industrial became unrealised until the interest in Enerchina is disposed of.

32. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 100%, and 90% of the registered capital of Lezhi Panva Gas Co., Ltd. and Pingchang Panva Gas Co., Ltd., respectively Both acquisitions have been accounted for by the acquisition method of accounting. The amount of negative goodwill arising as a result of the acquisitions was HK\$1,195,000 and HK\$5,759,000, respectively.

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Property, plant and equipment	82,854	77,729
Other investments	2,010	344
Inventories	2,092	126
Trade receivables	288	782
Other receivables, deposits and prepayments	24,188	1,386
Bank and cash balances	543	1,033
Trade payables	(2,077)	(3,119)
Other payables and accruals	(51,634)	(34,960)
Short term borrowings	(4,902)	(660)
Long term borrowings	(25,678)	-
Minority interests	(1,273)	(1,282)
	<u>26,411</u>	<u>41,379</u>
Goodwill	-	2,461
Negative goodwill	(6,954)	(9,485)
	<u>(6,954)</u>	<u>(9,485)</u>
Total consideration	<u>19,457</u>	<u>34,355</u>
Satisfied by		
Cash paid	15,716	34,355
Payable	3,741	-
	<u>19,457</u>	<u>34,355</u>
Net cash outflow arising on acquisition:		
Cash consideration	(15,716)	(34,355)
Bank balances and cash acquired	543	1,033
	<u>(15,173)</u>	<u>(33,322)</u>

The subsidiaries acquired during the year contributed HK\$79,027,000 to the Group's turnover and HK\$63,966,000 to the Group's profit from operations.

33. MAJOR NON-CASH TRANSACTIONS

On 26 March 2003, convertible note of HK\$40,800,000 was converted into 51,000,000 shares of HK\$0.10 each in the Company. The new shares rank pari passu with the existing shares in all aspects.

34. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions carried out during the year:

	2003 HK\$'000	2002 HK\$'000
Skillful Assets Limited (<i>Notes a & b</i>)		
– Rental paid thereto (<i>Note c</i>)	996	1,047
Mr. Ou Yaping (<i>Note a</i>)		
– Convertible note interest paid thereto (<i>Note d</i>)	–	287
Enerchina		
– Interest received therefrom (<i>Note d</i>)	4,456	3,886
– Office expenses received therefrom	788	–
	<u> </u>	<u> </u>

Notes:

- Transactions with these related parties are regarded as connected transactions as set out in Chapter 14 of the Listing Rules of the Stock Exchange.
- A company controlled by Mr. Ou Yaping and of which Mr. Ou Yaping is a director.
- Rental expenses were determined by the directors based on the directors' estimates of fair market value.
- The interest expense was determined in accordance with the loan agreement. The interest rate is 5% per annum for the convertible note and 3% per annum for the loan from Enerchina.

35. SHARE OPTION

The Company's share option schemes were adopted pursuant to the resolutions passed on 11 May 1998 (the "Old Scheme") and on 24 May 2002 (the "New Scheme") for providing incentives to directors and eligible employee and unless otherwise cancelled or amended. The New Scheme will expire on 23 May 2012. The Old Scheme was terminated on 24 May 2002. Under the Old Scheme and the New Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company, any of its subsidiaries, to subscribe for shares in the Company.

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

Option type	Outstanding at beginning of year	Granted during year	Exercised during year	Lapsed during year	Outstanding at end of year
For the year ended					
31 December 2003	<u>48,371,000</u>	<u>–</u>	<u>10,571,000</u>	<u>2,650,000</u>	<u>35,150,000</u>
For the year ended					
31 December 2002	<u>103,796,000</u>	<u>45,800,000</u>	<u>42,845,000</u>	<u>58,380,000</u>	<u>48,371,000</u>

Details of share options held by the Company's directors during the year are as follows:

	2003	2002
At 1 January	33,850,000	86,900,000
Granted during the year	–	27,800,000
Exercised during the year	(6,050,000)	(36,850,000)
Lapsed during the year	–	(44,000,000)
	<u>27,800,000</u>	<u>33,850,000</u>

No charge is recognised in the income statement in respect of the value of share options granted.

Total consideration received during the year was Nil (2002: HK\$56).

Details of share options granted during the year are as follows:

	2003	2002
Expiry date	–	01.09.2004 to 23.04.2006
Exercise price	–	HK\$0.67 to HK\$0.81
Aggregate proceeds if shares are issued	–	HK\$32,226,000

Details of share options exercised during the year are as follows:

	2003	2002
Expiry date	01.01.2004 to 01.06.2006	03.09.2002 to 01.06.2006
Exercise price	HK\$0.33 to HK\$0.50	HK\$0.33 to HK\$0.50
Aggregate issue proceeds	HK\$3,789,830	HK\$16,310,000

As at 31 December 2003, details of options are as follows:

	Expiry date	Exercise price	2003	2002
“in the money”	03.09.2002 to 01.01.2004	HK\$0.41 to HK\$0.50	–	330,000
	01.09.2004 to 01.01.2005	HK\$0.33 to HK\$0.67	20,700,000	–
	01.01.2005 to 01.06.2006	HK\$0.33 to HK\$0.41	–	12,441,000
	03.04.2005 to 01.12.2005	HK\$0.67	14,450,000	–
“out of money”	01.09.2004 to 23.04.2006	HK\$0.67 to HK\$0.81	–	35,600,000
			<u>35,150,000</u>	<u>48,371,000</u>

The share prices on the dates of exercise of options on 18 June 2003, 29 July 2003, 3 October 2003, 29 October 2003 and 28 November 2003 were HK\$0.60, HK\$0.60, HK\$0.74, HK\$0.85 and HK\$0.92 respectively.

The share prices on the dates of issue of shares upon exercise of options on 18 June 2003, 29 July 2003, 3 October 2003, 29 October 2003 and 28 November 2003 were HK\$0.60, HK\$0.60, HK\$0.74, HK\$0.85 and HK\$0.92 respectively.

36. RETIREMENT BENEFITS SCHEME

The Group provides a provident fund scheme for its Hong Kong employees and the scheme is funded by contributions from employers and employees. The amount of the Group's contributions is based on a specified percentage of the basic salary of the employees concerned. Forfeited contributions in respect of unvested benefits of employees leaving the scheme prior to benefits being vested are used to reduce the Group's ongoing contributions.

Moreover, pursuant to the relevant PRC regulations, relevant subsidiaries are required to contribute amounts ranging from approximately 7 to 25 per cent. of the aggregate staff wages to certain defined contribution retirement benefits schemes for the Group's employees in the PRC.

Details of the contributions made by the Group during the year are as follows:

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Group contributions to staff provident fund	5,495	5,925
Forfeited contributions utilised	—	(33)
	<u>5,495</u>	<u>5,892</u>
Net contributions charged to operating profit	<u>5,495</u>	<u>5,892</u>
Un-utilised forfeited contributions	<u>—</u>	<u>—</u>

With the implementation of the Mandatory Provident Fund ("MPF") Schemes Ordinance on 1 December 2000 in Hong Kong, the Group also participates in master trust MPF schemes operated by independent service providers. Mandatory contributions to these MPF schemes are made by both the employees and the Group at 5% of the employees' monthly relevant income capped at HK\$20,000. As the Group's retirement schemes in Hong Kong are non MPF-exempt recognised occupational retirement schemes ("ORSO schemes"), all the existing members have to lapse their ORSO schemes and participate in the MPF schemes from 1 December 2000.

37. CONTINGENT LIABILITIES

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Guarantees given to banks as security for the mortgage loans arranged for the purchasers of the Group's properties	<u>17,256</u>	<u>254,546</u>
Corporate guarantee given to a bank to secure bank borrowings granted to an associate	<u>—</u>	<u>279,701</u>

	THE COMPANY	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Corporate guarantee given to a bank to secure general banking facilities granted to a subsidiary	<u>514,500</u>	<u>514,500</u>

38. CAPITAL COMMITMENTS

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Commitments in respect of properties under development:		
– authorised but not contracted for	881,292	1,429,652
– contracted for but not provided in the financial statements	538,266	110,607
	<u>1,419,558</u>	<u>1,540,259</u>
Commitments in respect of interest in subsidiaries contracted for but not provided in the financial statements	186,361	87,618
	<u>1,605,919</u>	<u>1,627,877</u>

The Company had no capital commitments at the balance sheet date.

39. LEASE COMMITMENTS

At the balance sheet date, the Group had contracted with tenants for future minimum lease receipts in respect of land and buildings under non-cancellable operating leases which expire as follows:

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	336	225
In the second to fifth year inclusive	540	2
Over five years	306	–
	<u>1,182</u>	<u>227</u>

The properties held have committed tenants for periods up to nine years after the balance sheet date.

At the balance sheet date, the Group and the Company had the following outstanding commitments in respect of land and buildings under non-cancellable operating leases which expire as follows:

	THE GROUP		THE COMPANY	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	5,712	7,739	1,105	1,560
In the second to fifth years inclusive	12,774	11,634	–	845
Over five years	18,719	20,724	–	–
	<u>37,205</u>	<u>40,097</u>	<u>1,105</u>	<u>2,405</u>

The operating leases are negotiated for terms up to 30 years.

40. PLEDGE OF ASSETS

The Group has pledged its land held under medium term leases included in the properties under development for sale, having a net book value of approximately HK\$388,030,000 (2002: HK\$388,030,000) to secure general banking facilities granted to a subsidiary of the Company.

In addition, the Group had pledged property, plant and equipment having a net book value amounting to approximately HK\$43,963,000 (2002: HK\$8,135,000) to secure bank loans granted to the subsidiaries of the Company.

41. POST BALANCE SHEET EVENT

In January 2004, Panva Gas, a subsidiary of the Group signed a formal agreement with the Municipal Government of the municipality of Yuechi, Sichuan Province of the PRC for the acquisition of a 90% interest in Yuechi Natural Gas Company at a consideration of HK\$34,612,000.

On 5 February 2004, the Group entered into an agreement with 深圳創維鴻洲科技開發有限公司 and 黃宏生 where the Group has agreed to dispose the entire issued share capital of 深圳湖心島實業有限公司 (「深圳湖心島」), a subsidiary of the Company with 82% equity interest for a consideration of approximately HK\$66,188,000. The consideration for the disposal was determined, after arm's length negotiations with the reference to the registered capital of 深圳湖心島 and costs incurred for the property under development on land held in Dameisha in Shenzhen. A gain on disposal of HK\$3,898,000 was resulted.

On 14 April 2004, Enerchina completed an open offer of two offer shares for every existing share held. Smart Orient Investments Limited, a wholly owned subsidiary of the Company, acted as the underwriter of the open offer. A total of 1,525,525,936 shares were issued as a resulting raising approximately HK\$610,210,000. Upon completion of the subscription, the Group increased its interests in Enerchina from 33.70% to 37.10%.

D. AUDITED FINANCIAL INFORMATION (reproduced from the Company's annual report for the year ended 31 December 2002)

Set out below is the audited consolidated income statement, consolidated balance sheet, balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and notes to the financial statements reproduced from the audited accounts published in the Company's annual report for the year ended 31 December 2002.

Consolidated Income Statement

For the year ended 31 December 2002

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	4	1,525,406	1,527,305
Cost of sales		<u>(1,156,903)</u>	<u>(1,258,519)</u>
Gross profit		368,503	268,786
Other operating income	5	9,617	10,117
Distribution costs		(46,380)	(48,233)
Administrative expenses		(117,081)	(101,503)
Other operating expenses		<u>(3,509)</u>	<u>(5,912)</u>
Profit from operations	6	211,150	123,255
Interest income		11,336	22,733
Finance costs	8	(4,350)	(6,844)
Gain on disposal of subsidiaries	9	195,908	44,466
(Loss) gain on disposal of an associate		(234)	422
Amortisation of goodwill of an associate		(1,816)	–
Share of results of associates		<u>(22,749)</u>	<u>(360)</u>
Profit before taxation		389,245	183,672
Taxation	11	<u>(16,068)</u>	<u>(10,499)</u>
Profit before minority interests		373,177	173,173
Minority interests		<u>(78,748)</u>	<u>(56,202)</u>
Net profit for the year		<u><u>294,429</u></u>	<u><u>116,971</u></u>
Dividends	12	<u><u>55,483</u></u>	<u><u>60,639</u></u>
Earnings per share	13	<i>HK cents</i>	<i>HK cents</i>
Basic		<u><u>16.17</u></u>	<u><u>7.00</u></u>
Diluted		<u><u>15.40</u></u>	<u><u>6.63</u></u>

Consolidated Balance Sheet

At 31 December 2002

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	14	432,675	480,873
Goodwill	15	22,659	22,069
Negative goodwill	16	(26,585)	(18,955)
Interests in associates	18	129,882	6,422
Investment in securities	19	117,949	23,808
Trade receivables	22	1,269	2,473
		<u>677,849</u>	<u>516,690</u>
Current assets			
Stock of properties	20	1,644,354	1,602,424
Inventories	21	23,751	39,468
Trade and other receivables	22	278,720	229,883
Amount due from an associate	23	197,000	–
Amount due from minority shareholders	26	41,276	5,584
Investment in securities	19	31,455	6,992
Bank balances and cash		470,641	565,438
		<u>2,687,197</u>	<u>2,449,789</u>
Current liabilities			
Trade and other payables	24	280,658	362,749
Tax liabilities		30,822	30,986
Amounts due to minority shareholders	26	23,537	7,267
Borrowings – due within one year	27	14,599	410,170
		<u>349,616</u>	<u>811,172</u>
Net current assets		<u>2,337,581</u>	<u>1,638,617</u>
Total assets less current liabilities		3,015,430	2,155,307
Non-current liabilities			
Borrowings – due after one year	27	(904,480)	(510,790)
Deferred gain on disposal of a subsidiary	30	(77,000)	–
		<u>(981,480)</u>	<u>(510,790)</u>
		<u>2,033,950</u>	<u>1,644,517</u>
Minority interests		<u>(454,734)</u>	<u>(368,757)</u>
		<u>1,579,216</u>	<u>1,275,760</u>
Capital and reserves			
Share capital	28	184,944	167,200
Reserves	29	1,394,272	1,108,560
		<u>1,579,216</u>	<u>1,275,760</u>

Balance Sheet*At 31 December 2002*

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>14</i>	1,359	360
Investments in subsidiaries	<i>17</i>	878,333	1,051,728
Interest in an associate	<i>18</i>	163,563	–
Investment in securities	<i>19</i>	116,000	–
		<u>1,159,255</u>	<u>1,052,088</u>
Current assets			
Trade and other receivables		14,506	1,298
Investment in securities	<i>19</i>	5,512	6,641
Amount due from an associate	<i>23</i>	197,000	–
Bank balances and cash		181,202	103,309
		<u>398,220</u>	<u>111,248</u>
Current liabilities			
Trade and other payables		1,267	10,666
Amount due to subsidiaries	<i>25</i>	325,855	59,466
Borrowings – due within one year	<i>27</i>	–	55,183
		<u>327,122</u>	<u>125,315</u>
Net current assets/(liabilities)		<u>71,098</u>	<u>(14,067)</u>
Total assets less current liabilities		<u>1,230,353</u>	<u>1,038,021</u>
Non-current liabilities			
Borrowings – due after one year	<i>27</i>	(81,600)	–
		<u>1,148,753</u>	<u>1,038,021</u>
Capital and reserves			
Share capital	<i>28</i>	184,944	167,200
Reserves	<i>29</i>	963,809	870,821
		<u>1,148,753</u>	<u>1,038,021</u>

Consolidated Statement of Changes in Equity*For the year ended 31 December 2002*

	Share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Properties revaluation account <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	152,000	293,853	-	(5,742)	(5,985)	51,782	-	368,262	345,018	1,199,188
Exchange rate adjustment	-	-	-	8	-	-	-	-	-	8
Revaluation of land and buildings	-	-	20,558	-	-	-	-	-	-	20,558
Net gain not recognised in the income statement	-	-	20,558	8	-	-	-	-	-	20,566
Capitalisation of shares	15,200	(15,200)	-	-	-	-	-	-	-	-
Realised on disposal of a subsidiary	-	-	(1,096)	24	65	(177)	(207)	-	-	(1,391)
Contribution from a minority shareholder	-	-	-	-	-	-	1,065	-	-	1,065
Transfer from profit and loss account	-	-	-	-	-	6,117	-	-	(6,117)	-
Profit for the year	-	-	-	-	-	-	-	-	116,971	116,971
Dividend	-	-	-	-	-	-	-	-	(60,639)	(60,639)
At 31 December 2001	167,200	278,653	19,462	(5,710)	(5,920)	57,722	858	368,262	395,233	1,275,760
Exchange rate adjustment not recognised in the income statement	-	-	-	(211)	-	-	-	-	-	(211)
Realised on disposal of a subsidiary	-	-	(10,611)	(294)	8,511	(3,821)	(77)	(480)	-	(6,772)
Shares issued at premium	17,744	53,749	-	-	-	-	-	-	-	71,493
Transfer from profit and loss account	-	-	-	-	-	6,130	-	-	(6,130)	-
Profit for the year	-	-	-	-	-	-	-	-	294,429	294,429
Dividend	-	-	-	-	-	-	-	-	(55,483)	(55,483)
At 31 December 2002	184,944	332,402	8,851	(6,215)	2,591	60,031	781	367,782	628,049	1,579,216

Consolidated Cash Flow Statement*For the year ended 31 December 2002*

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
Profit before taxation	389,245	183,672
Adjustment for:		
Share of results of associates	22,749	360
Interest income	(11,336)	(22,733)
Interest expense	3,821	6,537
Depreciation	31,730	43,852
Dividend income	(360)	–
Gain on disposal of subsidiaries	(195,908)	(44,466)
Gain on disposal of an associate	–	(422)
Gain on disposal of investments	(592)	(1,616)
Realised holding loss on investment in securities	29	–
Unrealised holding (gain) loss on investment in securities	(623)	2,317
Deficit on revaluation of property, plant and equipment	–	1,851
Amortisation of goodwill	3,033	698
Release of negative goodwill	(1,855)	(145)
Loss (gain) on disposal of property, plant and equipment	2,203	(541)
Operating cash flows before movements in working capital	242,136	169,364
Increase in stock of properties	(4,910)	(797,032)
Decrease (increase) in inventories	770	(13,063)
(Increase) decrease in trade and other receivables	(39,203)	88,762
Decrease in trade and other payables	(90,304)	(1,540)
Cash from (used in) operations	108,489	(553,509)
Interest paid	(43,512)	(18,947)
Overseas tax paid	(15,749)	(15,378)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	49,228	(587,834)

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
INVESTING ACTIVITIES			
Interest received		9,739	26,548
Dividend received		360	–
Purchase of property, plant and equipment		(195,568)	(95,382)
Proceeds from sale of property, plant and equipment		2,676	2,880
Investment in an associate		(29,707)	–
Purchase of investment in securities		(136,438)	(80,957)
Proceeds from disposal of other investments		1,568	52,686
Repayment from associates		–	174
Advances to minority shareholders		(35,692)	(5,584)
Disposal of a subsidiary	30	79,556	(34)
Acquisition of an associate		(81,800)	–
Net cash outflow in respect of purchase of a subsidiary	31	(33,322)	(7,048)
Net proceed from partial disposal of a subsidiary		124,551	41,229
Net cash outflow in respect of partial acquisition of a subsidiary		–	(7,683)
NET CASH USED IN INVESTING ACTIVITIES		<u>(294,077)</u>	<u>(73,171)</u>
FINANCING ACTIVITIES			
Dividends paid by subsidiaries to minority shareholders		(5,313)	(14,582)
Dividend paid to shareholders		(55,483)	(45,600)
Proceed from issue of shares		16,310	–
Proceed from issue of convertible note		125,000	–
New borrowings		20,186	636,684
Repayment to minority shareholders		–	(49,218)
Increase in amount due from minority shareholders		49,563	43,078
NET CASH ACTIVITIES FROM FINANCING ACTIVITIES		<u>150,263</u>	<u>570,362</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(94,586)	(90,643)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		565,438	656,074
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		<u>(211)</u>	<u>7</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		<u><u>470,641</u></u>	<u><u>565,438</u></u>

Notes to the Financial Statements*For the year ended 31 December 2002***1. GENERAL**

The Company is incorporated in Bermuda as an exempt company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Asia Pacific Promotion Limited, a private limited company incorporated in the British Virgin Islands (the "BVI").

The principal activities of the Group are property development, supply of electricity and wholesaling and retailing of liquefied petroleum gas and natural gas ("Gas fuel").

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following new and revised Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statement
SSAP 33	Discounting operation
SSAP 34	Employee benefits

The adoption of the above Standards has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Cash Flow Statements

In the current period, the Group has adopted SSAP 15 (Revised) Cash Flow Statements. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating/investing/financing cash flows as appropriate. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Discontinuing Operations

SSAP 33 Discontinuing Operations is concerned with the presentation of financial information regarding discontinuing operations and replaces the requirements previously included in SSAP 2 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies. Under SSAP 33, financial statement amounts relating to the discontinuing operation are disclosed separately from the point at which either a binding sale agreement is entered into or a detailed plan for the discontinuance is announced. The adoption of SSAP 33 has resulted in the identification of the Group's electricity supply operations as a discontinuing operation in the current period, details of which are disclosed in note 10.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared 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 date of acquisition or up to the effective date 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 acquisitions prior to 1 January 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet. Goodwill arising on the acquisition of an associate is included in the interests in associates in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to future losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Recognition of revenue

Development properties

Income from properties developed for sale, where there are no pre-sales prior to completion of a development, is recognised on the execution of the sales and purchase agreement.

Income from properties pre-sold prior to completion of development is recognised over the period from the execution of the sales and purchase agreement to the completion of the development on the basis of development costs incurred to date as a proportion of estimated total development costs.

Income from outright sales of an entire property development project is recognised upon execution of the sale and purchase agreement.

Sales of electricity supply

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

Gas pipelines construction revenue

Gas pipelines construction revenue is recognised when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the period. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable.

Sales of goods

Sales of goods are recognised when goods are delivered and title has passed.

Income from decoration, interior design and related services

Income from decoration, interior design and related services is recognised using the percentage of completion method, measured by reference to the proportion that costs incurred to date to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Income from property management services

Income from property management services is recognised on provision of services.

Interest income

Interest income is accrued on a time proportion basis on the principal outstanding and at the rate applicable.

Dividend income

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

Stock of properties

Stock of properties includes properties under development and properties held for sale.

The carrying value of properties under development comprises the land cost together with development expenditure, which includes construction costs, capitalised interest and ancillary borrowing costs, plus attributable profits taken to date, less progress payments received and foreseeable losses. Attributable profit on pre-sale of properties under development is recognised over the course of the development. Profit recognised on pre-sale of properties during an accounting period is calculated by reference to the proportion of construction costs incurred up to the accounting date to total estimated construction costs to completion, with due allowance for contingencies.

Properties held for sale are classified under current assets and stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development cost attributable to the unsold properties. Net realisable value is the estimated price at which a property can be realised in the ordinary course of business less related selling expenses.

Investments in subsidiaries

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

A joint venture is treated as a subsidiary if, under the joint venture control, the Group had the power to govern the financial and operating policies of the joint venture so as to obtain benefits from its activities.

Interests 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 goodwill on acquisition less any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Investment securities

Investments securities are recognised on a trade-date basis and are initially measured at cost.

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 values, with unrealised gains and losses included in net profit or loss for the year.

Property, plant and equipment

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Other plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives on a straight line basis, after taking into consideration of their estimated residual values. The principal annual rates used are as follows:

Leasehold land	Over the unexpired term of lease or over the term of equity joint venture contract, whichever is shorter
Buildings	3% to 10%
Plant and machinery	6% to 30%
Furniture, fixtures and equipment	18% to 40%
Motor vehicles	6% to 30%
Gas pipelines	3%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment 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, which includes all development expenditure and other direct costs, including interest expenses attributable to such projects, is stated at cost. Costs on completed construction work are transferred to property, plant and equipment.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets 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 losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that another SSAP.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on the translation of foreign currency borrowings used to finance net investments in overseas operations/subsidiaries are taken directly to reserves. Other profits and losses arising on exchange are dealt with in the income statement.

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 exchange reserve. Such translation differences are recognised as income or as expense in the period in which the operation is disposed of.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Decoration work in progress comprises direct material and labour cost plus attributable profits taken to date less deposits received and provision for any foreseeable losses.

Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the balance sheet date can be measured reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contracts costs will exceed contract revenue, the expected loss is recognised an expense immediately.

Convertible note

A convertible note is regarded as a liability until conversion occurs and the finance costs recognised in the income statement in respect of the convertible note are calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible note for each accounting period.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rental receivable or payable in respect of operating leases are credited or charged respectively to the income statement on a straight line basis over the terms of the respective leases.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represents the contributions payable in respect of the current year to the Group's defined contribution scheme and Mandatory Provident Fund Scheme in Hong Kong and state – sponsored retirement plan for its employees in the PRC.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable a liability or asset will crystallise in the foreseeable future.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(A) Business segments

For management purposes, the Group is currently organised into three operating divisions – property development, gas fuel business and others. These divisions are the basis on which the Group reports its primary segment information. Principal activities are as follows:

Property development	–	sales of completed properties/development properties
Gas fuel business	–	wholesaling and retailing of gas fuel and the construction of gas pipelines
Others	–	decoration, interior design work and property management services

In prior years, the Group was also involved in the electricity supply. That operation was discontinued from 6 May 2002 (see note 10).

- (i) Segment information about these businesses for the year ended 31 December 2002 is presented below:

INCOME STATEMENT

	Continuing operations			Discontinuing	Eliminations	Consolidated
	Property	Gas fuel	Others	operation		
	development	business		Electricity		
	HK\$'000	HK\$'000	HK\$'000	supply	HK\$'000	HK\$'000
TURNOVER						
External sales	311,997	1,150,322	22,613	40,474	-	1,525,406
Inter-segment sales	-	-	9,542	-	(9,542)	-
	<u>311,997</u>	<u>1,150,322</u>	<u>32,155</u>	<u>40,474</u>	<u>(9,542)</u>	<u>1,525,406</u>
Inter-segment sales are charged at prevailing market prices.						
RESULT						
Segment result	<u>31,556</u>	<u>184,129</u>	<u>4,998</u>	<u>2,180</u>	-	222,863
Other operating income						9,588
Unallocated corporate expenses						<u>(21,301)</u>
Profit from operations						211,150
Interest income						11,336
Finance costs						(4,350)
Gain on disposal of subsidiaries	-	111,860	-	84,048	-	195,908
Loss on disposal of an associate	(234)	-	-	-	-	(234)
Amortisation of goodwill of an associate	-	-	(1,816)	-	-	(1,816)
Share of results of associates	2,306	-	(25,055)	-	-	<u>(22,749)</u>
Profit before taxation						389,245
Taxation						<u>(16,068)</u>
Profit before minority interests						373,177
Minority interests						<u>(78,748)</u>
Net profit for the year						<u>294,429</u>

BALANCE SHEET

	Continuing operations			Discontinuing operation	Consolidated HK\$'000
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	Electricity supply HK\$'000	
ASSETS					
Segment assets	1,876,227	735,540	316,133	–	2,927,900
Interest in associates	36,303	–	93,579	–	129,882
Unallocated corporate assets					307,264
Consolidated total assets					<u>3,365,046</u>
LIABILITIES					
Segment liabilities	187,671	136,900	10,203	–	334,774
Unallocated corporate liabilities					996,322
Consolidated total liabilities					<u>1,331,096</u>

OTHER INFORMATION

	Continuing operations			Discontinuing operation	Consolidated HK\$'000
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	Electricity supply HK\$'000	
Capital additions	5,264	175,842	9,391	82,800	273,297
Goodwill additions	–	2,461	54,482	–	56,943
Depreciation and amortisation	<u>9,520</u>	<u>19,914</u>	<u>3,752</u>	<u>1,577</u>	<u>34,763</u>

- (ii) Segment information about these businesses for the year ended 31 December 2001 is presented below:

INCOME STATEMENT

	Continuing operations			Discontinuing	Eliminations	Consolidated
	Property	Gas fuel	Others	operation		
	development	business		Electricity		
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	supply	<i>HKS'000</i>	<i>HKS'000</i>
TURNOVER						
External sales	335,898	1,008,335	26,916	156,156	-	1,527,305
Inter-segment sales	-	-	54,722	-	(54,722)	-
	<u>335,898</u>	<u>1,008,335</u>	<u>81,638</u>	<u>156,156</u>	<u>(54,722)</u>	<u>1,527,305</u>
Inter-segment sales are charged at prevailing market prices.						
RESULT						
Segment result	<u>46,443</u>	<u>64,840</u>	<u>3,771</u>	<u>10,993</u>	<u>-</u>	<u>126,047</u>
Other operating income						10,117
Unallocated corporate expenses						<u>(12,909)</u>
Profit from operations						123,255
Interest income						22,733
Finance costs						<u>(6,844)</u>
Gain on disposal of subsidiaries	-	44,466	-	-	-	44,466
Gain on disposal of an associate	422	-	-	-	-	422
Share of results of associates	<u>(360)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(360)</u>
Profit before taxation						183,672
Taxation						<u>(10,499)</u>
Profit before minority interests						173,173
Minority interest						<u>(56,202)</u>
Net profit for the year						<u>116,971</u>

BALANCE SHEET

	Continuing operations			Discontinuing operation	Consolidated HK\$'000
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	Electricity supply HK\$'000	
ASSETS					
Segment assets	1,885,874	529,972	182,247	239,147	2,837,240
Interest in associates	5,858	-	-	564	6,422
Unallocated corporate assets					122,817
Consolidated total assets					<u>2,966,479</u>
LIABILITIES					
Segment liabilities	227,065	113,447	7,979	41,509	390,000
Unallocated corporate liabilities					931,962
Consolidated total liabilities					<u>1,321,962</u>

OTHER INFORMATION

	Continuing operations			Discontinuing operation	Consolidated HK\$'000
	Property development HK\$'000	Gas fuel business HK\$'000	Others HK\$'000	Electricity supply HK\$'000	
Capital additions	16,473	70,649	1,080	33,697	121,899
Goodwill additions	809	21,958	-	-	22,767
Depreciation and amortisation	10,348	16,355	996	16,851	44,550
Unrealised holding loss on other investments	-	-	2,317	-	2,317
Deficit on revaluation of property, plant and equipment	-	1,851	-	-	1,851
	<u>-</u>	<u>1,851</u>	<u>-</u>	<u>-</u>	<u>1,851</u>

(B) Geographical segments

As over 90% of the consolidated turnover, trading results and assets for the year is derived from or located in the PRC, an analysis of the consolidated turnover, trading results and assets by geographical location is not presented.

5. OTHER OPERATING INCOME

	2002 HK\$'000	2001 HK\$'000
Dividend income	360	-
Gain on disposal of investment in securities	592	1,616
Gain on disposal of property, plant and equipment	-	541
Insurance claimed	-	1,957
Net exchange gain	918	316
Release of negative goodwill	1,855	145
Rental income under operating leases	2,195	2,216
Unrealised holding gain on investment in securities	623	-
Sundry	3,074	3,326
	<u>9,617</u>	<u>10,117</u>

6. PROFIT FROM OPERATIONS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Profit from operations is arrived at after charging:		
Auditors' remuneration		
Provided for the year	2,040	1,981
(Over)underprovision in prior year	(332)	559
	<u>1,708</u>	<u>2,540</u>
Depreciation	31,730	43,852
Operating lease rentals	5,397	7,166
Loss on disposal of property, plant and equipment	2,203	–
Unrealised holding loss on investments in securities	–	2,317
Realised holding loss on investments in securities	29	–
Staff costs including directors' remuneration	78,986	68,218
Amortisation of goodwill (included in administrative expenses)	1,217	698
Deficit on revaluation of property, plant and equipment	<u>–</u>	<u>1,851</u>

7. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

Details of the emoluments paid by the Group to the directors are as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees	238	150
Salaries and other emoluments	8,417	7,502
Contributions to retirement benefits scheme	125	111
Discretionary bonuses	700	550
	<u>9,480</u>	<u>8,313</u>

The amounts disclosed above include directors' fees of HK\$237,500 (2001: HK\$150,000) payable to independent non-executive directors. No other emoluments were payable to independent non-executive directors.

The emoluments of the directors were within the following bands:

Emolument band (Hong Kong Dollars)	Number of individuals	
	2002	2001
\$Nil – \$1,000,000	4	3
\$1,000,001 – \$1,500,000	–	3
\$1,500,001 – \$2,000,000	3	–
\$3,500,001 – \$4,000,000	–	1
\$4,000,001 – \$4,500,000	<u>1</u>	<u>–</u>

Of the five individuals with the highest emoluments in the Group, four (2001: four) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining individual were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and allowances	1,171	1,353
Contributions to retirement benefits scheme	—	12
	<u>1,171</u>	<u>1,365</u>

His emoluments were within the following bands:

	Number of individuals 2002	2001
Emolument band		
\$1,000,001 – \$1,500,000	<u>1</u>	<u>1</u>

8. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on		
Bank loans and other borrowing wholly repayable within five years	41,522	16,969
Convertible bonds	1,248	2,759
	<u>42,770</u>	<u>19,728</u>
Less: Amount capitalised to properties under development for sale	(38,949)	(13,191)
	3,821	6,537
Bank charges	244	307
Handling charge	285	—
	<u>4,350</u>	<u>6,844</u>

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.6% (2001: 5.4%) to expenditure on qualifying assets.

9. GAIN ON DISPOSAL OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Gain on partial disposal of interest in a subsidiary	111,860	44,183
Gain on disposal of a subsidiary (<i>see note 30</i>)	84,048	283
	<u>195,908</u>	<u>44,466</u>

Gain on partial disposal of interest in a subsidiary represented the gain arising on disposal of shares of Panva Gas Holdings Limited (“Panva Gas”) to a third party.

10. DISCONTINUING OPERATIONS

On 8 March 2002, the Group entered into a sales agreement to dispose of Sinolink Industrial Limited (“Sinolink Industrial”), which carried out all of the Group’s electricity supply operations. The disposal was completed on 6 May 2002, on which date control of Sinolink Industrial was passed to the acquirer.

The results of the electricity supply operations for the period from 1 January 2002 to 6 May 2002, which have been included in the consolidated financial statements were as follows:

	Period ended 6.5.2002 HK\$'000	Year ended 31.12.2001 HK\$'000
Turnover	40,474	156,156
Cost of sales	(35,241)	(135,634)
Other operating income	179	2,793
Other operating expenses	(3,053)	(9,529)
Finance costs	(1,144)	(3,512)
Profit from operations	1,215	10,274
Share of result of an associate	–	(7)
Profit before taxation	1,215	10,267
Taxation	3	(486)
Profit after taxation	<u>1,218</u>	<u>9,781</u>

During the year, Sinolink Industrial paid HK\$35,213,000 (2001: contributed HK\$22,034,000) to the Group's net operating cash flows, paid HK\$85,542,000 (2001: HK\$33,585,000) in respect of investing activities and contributed HK\$113,991,000 (2001: HK\$28,360,000) in respect of financing activities.

The carrying amounts of the assets and liabilities of Sinolink Industrial at the date of disposal, and at 31 December 2002, are disclosed as follows:

	6.5.2002 HK\$'000	31.12.2001 HK\$'000
Total assets	<u>397,133</u>	<u>234,658</u>
Total liabilities	<u>(398,263)</u>	<u>(232,309)</u>

A gain of HK\$84 million arose on the disposal of Sinolink Industrial, being the proceeds of disposal less the carrying amount of the subsidiary's net assets and attributable goodwill (see note 30). No tax charge or credit arose from the transaction.

11. TAXATION

	2002 HK\$'000	2001 HK\$'000
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The tax charge comprises:

Profit for the year		
PRC excluding Hong Kong	<u>16,068</u>	<u>10,499</u>

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Pursuant to relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries established in the PRC are exempted from paying income tax for the first two years starting from their first profitable year of operation, followed by a 50% reduction from the third to fifth year. Provision for PRC income tax is provided for with reference to the applicable tax rates on the estimated assessable profits of those subsidiaries for the year, which ranged from 15% to 33%.

Deferred taxation has not been provided for in the financial statements as there were no significant timing differences arising during the year or at the balance sheet date.

12. DIVIDENDS

The Company paid an interim dividend of HK\$0.03 per share (2001: HK\$0.03) amounting to HK\$55,483,110 (2001: HK\$45,600,000).

On 12 April 2001, the Company distributed a special interim dividend of HK\$15,039,000 by way of dividend in specie of 15,200,000 shares of Panva Gas ("Panva Shares") in the proportion of 20 Panva Shares for every 2,000 shares of the Company held.

13. EARNINGS PER SHARE

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Earnings for the purposes of basic earnings per share	294,429	116,971
Effect of dilutive potential shares:		
Interest on convertible note	824	2,759
Earnings for the purposes of diluted earnings per share	<u>295,253</u>	<u>119,730</u>
Weighted average number of shares for the purposes of basic earnings per share	1,820,292,000	1,672,000,000
Effect of dilutive potential ordinary shares:		
Options	15,133,000	–
Convertible notes	81,450,000	134,592,000
Weighted average number of shares for the purposes of diluted earnings per share	<u>1,916,875,000</u>	<u>1,806,592,000</u>

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share warrants as the exercise price of those warrants is higher than the average market price for the Company's shares for year 2002.

The computation of diluted earning per share in 2001 does not assume the exercise of the Company's outstanding share options as the average share price of those options was lower than the exercise price for the Company's shares for year 2001.

14. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold land and buildings in the PRC HK\$'000	Construction in progress HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Gas pipelines HK\$'000	Total HK\$'000
THE GROUP							
COST OR VALUATION							
At 1 January 2002	217,374	57,089	278,416	32,960	27,561	–	613,400
Acquisition of a subsidiary	4,296	69,604	3,339	15	127	348	77,729
Disposal of a subsidiary	(90,000)	(119,133)	(136,412)	(3,130)	(1,100)	–	(349,775)
Additions	22,273	146,932	19,177	587	6,599	–	195,568
Disposals	(13,623)	(1,790)	(1,011)	(840)	(854)	–	(18,118)
Reclassification	–	–	(17,036)	–	–	17,036	–
Transfer	–	(140,463)	836	–	–	139,627	–
At 31 December 2002	140,320	12,239	147,309	29,592	32,333	157,011	518,804
Comprising:							
At cost	–	12,239	147,309	29,592	32,333	157,011	378,484
At valuation 2001	140,320	–	–	–	–	–	140,320
	140,320	12,239	147,309	29,592	32,333	157,011	518,804
DEPRECIATION							
At 1 January 2002	26,100	–	82,526	16,200	7,701	–	132,527
Disposal of subsidiary	–	–	(61,373)	(2,947)	(569)	–	(64,889)
Provided for the year	6,116	–	10,324	5,336	7,211	2,743	31,730
Eliminated on disposals	(11,707)	–	(255)	(677)	(600)	–	(13,239)
Reclassification	–	–	(2,370)	–	–	2,370	–
At 31 December 2002	20,509	–	28,852	17,912	13,743	5,113	86,129
NET BOOK VALUES							
At 31 December 2002	119,811	12,239	118,457	11,680	18,590	151,898	432,675
At 31 December 2001	191,274	57,089	195,890	16,760	19,860	–	480,873

The leasehold land and buildings of the Group in the PRC were valued at 31 January 2001 by Messrs. DTZ Debenham Tie Leung Limited, Chartered Surveyors, on an opened market value basis. Messrs. Diz Debenham Tie Leung Limited are not connected with the Group.

No professional valuation of the leasehold land and buildings was carried out at 31 December 2002 as, in the opinion of the directors, the carrying value of the leasehold land and buildings was not materially different from the open market value at 31 January 2001.

If the leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK\$66,322,000 (2001: HK\$169,057,000).

The net book value of land and buildings includes an amount of approximately HK\$Nil (2001: HK\$9,795,000) in respect of assets rented out under operating lease.

The Group had pledged property, plant and equipment with a net book value of approximately HK\$8,135,000 (2001: HK\$8,337,000) to secure banking facilities granted to the Group (note 39).

	Furniture, fixtures and equipment <i>HK\$'000</i>
THE COMPANY	
COST	
At 1 January 2002	815
Additions	1,594
At 31 December 2002	<u>2,409</u>
DEPRECIATION	
At 1 January 2002	455
Provided for the year	595
At 31 December 2002	<u>1,050</u>
NET BOOK VALUE	
At 31 December 2002	<u><u>1,359</u></u>
At 31 December 2001	<u><u>360</u></u>
15. GOODWILL	
	THE GROUP 2002 <i>HK\$'000</i>
COST	
At 1 January 2002	22,767
Arising on acquisition during the year	2,461
Disposal during the year	(709)
At 31 December 2002	<u>24,519</u>
AMORTISATION	
At 1 January 2002	698
Provided for the year	1,217
Eliminated on disposal	(55)
At 31 December 2002	<u>1,860</u>
NET BOOK VALUE	
At 31 December 2002	<u><u>22,659</u></u>
At 31 December 2001	<u><u>22,069</u></u>

The amortisation period adopted for goodwill is 20 years.

16. NEGATIVE GOODWILL

	THE GROUP 2002 <i>HK\$'000</i>
GROSS AMOUNT	
At 1 January 2002	(19,100)
Arising on acquisition during the year	(9,485)
	<hr/>
At 31 December 2002	(28,585)
	<hr/>
RELEASED TO INCOME	
At 1 January 2002	145
Released to income in the year	1,855
	<hr/>
At 31 December 2002	2,000
	<hr/>
CARRYING AMOUNT	
At 31 December 2002	(26,585)
	<hr/> <hr/>
At 31 December 2001	(18,955)
	<hr/> <hr/>

The negative goodwill arose on the Group's acquisition of an additional interest in Shenzhen Fuhuade Electric Power Co., Ltd. in November 2001 and acquisition of Weiyuan Panva Gas Co., Ltd. ("Weiyuan Panva") in September 2002 amounting to HK\$19,100,000 and HK\$9,485,000 respectively being the excess of the Group's interest in the fair value of the identifiable assets and liabilities of the subsidiary at the date of acquisition over the cost of acquisition. The negative goodwill is being released to income on a straight line basis of 11 years and 30 years respectively, the remaining weighted average useful life of the depreciable assets acquired.

17. INVESTMENTS IN SUBSIDIARIES

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares, at cost	670,174	670,174
Amounts due from subsidiaries	208,159	381,554
	<hr/>	<hr/>
	878,333	1,051,728
	<hr/> <hr/>	<hr/> <hr/>

The amounts due from subsidiaries are interest-free, unsecured and have no fixed term of repayment. In the opinion of the directors, the amount will not be repayable within one year and therefore classified as non-current assets.

Particulars of the subsidiaries as at 31 December 2002 are as follows:

Name	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
<i>Directly-owned subsidiaries</i>				
I-Happy Profit Limited	BVI	1 share of US\$1 each	100%	Investment holding
Kenson Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink Progressive Limited	BVI	47,207 shares of US\$1 each	100%	Investment holding
Supreme All Investments Limited	BVI	1 share of US\$1 each	100%	Investment holding
Smart Orient Investments Limited	BVI	1 share of US\$1 each	100%	Investment holding
<i>Indirectly-owned subsidiaries</i>				
China Pan River Group Ltd.	BVI	1 share of US\$1 each	100%	Investment holding
Chenzhou Pan River Gas Industry Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB9,000,000	55%	Wholesaling and retailing of LP Gas
China Overlink Holdings Co., Limited	BVI	1 share of US\$1 each	100%	Investment holding
Chuzhou YPC & Panva Energy Co., Limited	PRC – Sino-foreign equity joint venture	RMB1,000,000	60%	Wholesaling and retailing of LP Gas
Firstline Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Future Perfect Properties Limited	BVI	1 share of US\$1 each	100%	Property holding
Link Capital Investments Limited	BVI	50,000 shares of US\$1 each	100%	Investment holding
Nanjing Panva LPG Company Ltd.	PRC – Sino-foreign equity joint venture	RMB50,000,000	55%	Wholesaling and retailing of LP Gas
Nanjing Panva Pipeline Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	US\$1,010,000	100%	The provision of LP Gas and related services and gas pipeline construction
Nanling Pan River LPG Co., Ltd.	PRC – Limited liability company	RMB2,000,000	55%	Wholesaling and retailing of LP Gas

Name	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
Ocean Diamond Limited	BVI	50,000 shares of US\$1 each	100%	Investment holding
Panriver Investments Company Limited	PRC – Limited liability company	US\$30,000,000 (Note 1)	100%	Investment holding
Panvs Gas Holdings Limited	BVI	605,076,000 shares of HK\$0.1 each	70.95%	Investment holding
Panva Gas (Yunnan) Co., Ltd.	PRC – Limited liability company	RMB58,840,000	56.94%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Changde) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB6,000,000	85%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Changsha) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB40,000,000	60%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Hengyang) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB6,000,000	84%	Wholesaling and retailing of LP Gas
Pan River Enterprises (Wuhu) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB32,000,000	55%	Wholesaling and retailing of LP Gas
Pan River Gas (China Southwest) Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB16,000,000	50.10%	Wholesaling and retailing of LP Gas
Pengxi Panva Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB3,590,000	90%	The provision of natural gas and related services and gas pipeline construction
Shenzhen China Overseas-Sinolink Property Management Co., Ltd.	PRC – Limited liability company	RMB1,500,000	100%	Property management
Shenzhen Mangrove West Coast Property Development Co. Ltd.	PRC – Sino-foreign equity joint venture	RMB10,000,000	100%	Property development
Shenzhen Sinolink Enterprises Co., Ltd.	PRC – Foreign equity joint venture	RMB375,000,000	80%	Property development

Name	Place of incorporation/ establishment/ and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
Shenzhen Sinolink Property Management Co., Ltd.	PRC – Foreign equity joint venture	RMB2,000,000	85%	Property management
Shenzhen Weikong Decorate Engineering Co., Ltd.	PRC – Foreign equity joint venture	RMB5,000,000	100%	Decoration, interior design and related services
Singkong Investments Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	Investment holding
Sinolink International Investment (Group) Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink LPG Development Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink LPG Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink Petrochemical Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink Power Investment Limited	BVI	1 share of US\$1 each	100%	Investment holding
Sinolink Properties Agent Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	Property agent
Sinolink Worldwide (HK) Company Limited	Hong Kong	10,000,000 ordinary shares of HK\$1 each	100%	Investment holding
Weiyuan Panva Gas Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB5,000,000	99.5%	The provision of natural gas and related services and gas pipeline construction
Wuhu Pan River Jiangbei Enterprises Co., Ltd. company	PRC – Limited liability	RMB500,000	51%	Wholesaling and retailing of LP Gas
Xiangtan Pan River Energy Industry Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB10,000,000	55%	Wholesaling and retailing of LP Gas
Yangzi Petrochemical Baijiang Energy Resources Co., Ltd.	PRC – Sino-foreign equity joint venture	US\$7,230,000	50% (Note 2)	Wholesaling and retailing of LP Gas
Yiyang Pan River Enterprises Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB5,000,000	60%	Wholesaling and retailing of LP Gas

Name	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held	Principal activities
Yongzhou Pan River Enterprises Co., Ltd.	PRC – Sino-foreign equity joint venture	RMB5,000,000	60%	Wholesaling and retailing of LP Gas
Ziyang Panva Gas Co., Ltd. (formerly known as Ziyang Gas Company)	PRC – Sino-foreign equity joint venture construction	RMB9,890,000	90%	The provision of natural gas and related services and gas pipeline
Zunyi Pan River Gas Co., Ltd.	PRC – Limited company	RMB4,200,000	50.10%	Wholesaling and retailing of LP Gas

Note 1: Panriver Investments Company Limited is a foreign wholly-owned enterprise with a tenure of 50 years. At the date of this report, Panriver Investments Company Limited has an outstanding registered capital contribution of US\$9,000,000 which needs to be paid up by China Pan River Group Ltd. by 9 March 2003 or on such later date as approved by the relevant PRC governing authority. The deadline is automatically extended 1 month to 9 April 2003 by concession. Panriver Investments Company Limited is applying to further extend the deadline to 10 June 2003.

Note 2: Yangzi Petrochemical Baijiang Energy Resources Co., Ltd. is a subsidiary of the Company because the Company has control over the board of directors.

None of the subsidiaries had issued any debt securities at 31 December 2002 or at any time during the year.

18. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Listed shares at cost	–	–	163,563	–
Share of net (liabilities) assets	39,005	(2,082)	–	–
Amounts due from associates	10,908	8,504	–	–
Loan to an associate	27,303	–	–	–
Goodwill on acquisition of an associate	52,666	–	–	–
	<u>129,882</u>	<u>6,422</u>	<u>163,563</u>	<u>–</u>
Market value of listed shares			<u>83,542</u>	<u>–</u>

The amounts due from associates are interest free and unsecured. The amount is classified under non-current assets as the directors are of the opinion that they will not be repaid in the forthcoming year.

The goodwill on acquisition of associate arose on the acquisition of Enerchina Holdings Limited in 2002. The goodwill of HK\$54,482,000 had been arisen on the acquisition. The amortisation period adopted for goodwill is 20 years. The amount released to income in the current year amounting to HK\$1,816,000 has been included in the consolidated income statement.

As at 31 December 2002, the Group had interests in the following associates:

Name of associate	Place of incorporation/ establishment and operation	Issued and fully paid up registered capital	Proportion of nominal value of registered capital held by the Group	Principal activities
Shenzhen Xiangdu F. & E. Co., Ltd.	PRC – Foreign equity joint venture	RMB4,000,000	45%	Restaurant operation
Enerchina Holdings Limited (“Enerchina”)	Bermuda	3,632,245,567 shares of HK\$0.01 each	29.99%	Investment holding
Shenzhen Fuhuade Electric Power Co., Ltd. (“Fuhuade”)	PRC – Foreign equity joint venture	RMB100,000,000	59.99% (Note 1)	Electricity supply

Note 1: The percentage of equity interest attributable to the Group is 44.99%.

19. INVESTMENT IN SECURITIES

	Held to maturity debt securities		Investment securities		Other investments		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
THE GROUP								
Equity securities								
Listed – Hong Kong	–	–	–	23,214	31,455	6,992	31,455	30,206
Unlisted	–	–	1,949	594	–	–	1,949	594
	<u>–</u>	<u>–</u>	<u>1,949</u>	<u>23,808</u>	<u>31,455</u>	<u>6,992</u>	<u>33,404</u>	<u>30,800</u>
Debt securities								
Unlisted	116,000	–	–	–	–	–	116,000	–
	<u>116,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>116,000</u>	<u>–</u>
Total								
Listed – Hong Kong	–	–	–	23,214	31,455	6,992	31,455	30,206
Unlisted	116,000	–	1,949	594	–	–	117,949	594
	<u>116,000</u>	<u>–</u>	<u>1,949</u>	<u>23,808</u>	<u>31,455</u>	<u>6,992</u>	<u>149,404</u>	<u>30,800</u>
Market value of listed securities	<u>–</u>	<u>–</u>	<u>–</u>	<u>11,753</u>	<u>31,455</u>	<u>6,992</u>	<u>31,455</u>	<u>18,745</u>
Carrying amount analysed for reporting purposes as:								
Non-current	116,000	–	1,949	23,808	–	–	117,949	23,808
Current	–	–	–	–	31,455	6,992	31,455	6,992
	<u>116,000</u>	<u>–</u>	<u>1,949</u>	<u>23,808</u>	<u>31,455</u>	<u>6,992</u>	<u>149,404</u>	<u>30,800</u>

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	Held to maturity debt securities		Investment securities		Total	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY						
Debt securities						
Unlisted	116,000	–	–	–	116,000	–
Equity securities						
Listed – Hong Kong	–	–	5,512	6,641	5,512	6,641
Market value of listed securities	<u>116,000</u>	<u>–</u>	<u>5,512</u>	<u>6,641</u>	<u>121,512</u>	<u>6,641</u>
Carrying amount analysed for reporting purposes as:						
Non-current	116,000	–	–	–	116,000	–
Current	–	–	5,512	6,641	5,512	6,641
	<u>116,000</u>	<u>–</u>	<u>5,512</u>	<u>6,641</u>	<u>121,512</u>	<u>6,641</u>

20. STOCK OF PROPERTIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Properties under development for sale		
Cost plus attributable profit less foreseeable losses	1,383,645	1,539,397
Less: Progress payments received	(1,929)	–
Stock of unsold properties	<u>1,381,716</u>	<u>1,539,397</u>
	<u>262,638</u>	<u>63,027</u>
	<u>1,644,354</u>	<u>1,602,424</u>

Included in the stock of properties the interest capitalised of HK\$85,809,000 (2001: HK\$46,859,000).

21. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
At cost:		
Gas fuel	11,512	20,078
Diesel fuel	–	12,737
Consumable stores	<u>12,239</u>	<u>6,653</u>
	<u>23,751</u>	<u>39,468</u>

22. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit terms ranging from 0 to 180 days to its customers. However, for the properties customers, general credit terms of up to 3 years are allowed by the Group. Included in trade and other receivables are trade receivables totalling from HK\$114,327,000 (2001: HK\$139,920,000), the aged analysis of which is as follows:

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged:		
0 to 90 days	96,856	109,293
91 to 180 days	5,357	18,233
181 to 360 days	4,784	299
over 360 days	7,330	12,095
	<u>114,327</u>	<u>139,920</u>
Less: Non-current portion	(1,269)	(2,473)
	<u><u>113,058</u></u>	<u><u>137,447</u></u>

23. AMOUNT DUE FROM AN ASSOCIATE

The loan to associate is payable on demand and carries interests at the rate of 3% per annum payable semi-annually, the payment of the amount is secured by to the shares of Sinolink Industrial Limited, share of Sinolink Electric Power Co. Limited ("SEPCL") and letter of undertaking to be executed by SEPCL.

24. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$164,058,000 (2001: HK\$111,981,000), the aged analysis of which is as follows:

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged:		
0 to 90 days	140,461	93,116
91 to 180 days	121	5,986
181 to 360 days	804	8,824
over 360 days	22,672	4,055
	<u>164,058</u>	<u>111,981</u>

25. AMOUNT DUE TO SUBSIDIARIES

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

26. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS

These balances are unsecured, interest free and repayable on demand.

27. BORROWINGS

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans				
– secured	189,529	189,804	–	–
– unsecured	522,950	675,412	–	–
Other loans	–	561	–	–
Convertible notes	206,600	55,183	81,600	55,183
	<u>919,079</u>	<u>920,960</u>	<u>81,600</u>	<u>55,183</u>
The maturity of the above loans is as follows:				
On demand or within one year	14,599	410,170	–	55,183
More than two years but not exceeding five years	904,480	510,790	81,600	–
	<u>919,079</u>	<u>920,960</u>	<u>81,600</u>	<u>55,183</u>
Less: Amount due within one year shown under current liabilities	<u>(14,599)</u>	<u>(410,170)</u>	<u>–</u>	<u>(55,183)</u>
Non-current portion	<u>904,480</u>	<u>510,790</u>	<u>81,600</u>	<u>–</u>

During the year, the convertible loan note due to a director, Mr. Ou Yaping, issued on 12 February 1999 was converted into 134,592,000 shares of the Company at an adjusted conversion price of HK\$0.41 per share.

The Company issued a new convertible loan note to Silver Grant International Industries Limited, in the amount of HK\$81,600,000 on 6 May 2002. The note is convertible into shares of the Company from the date of issue up to the second anniversary of the date of issue at a conversion price of HK\$0.8 per share. The outstanding unconverted principal amount of the note will be redeemed on 5 May 2004 at par. Interest is payable at 1% per annum.

The remaining amount of HK\$125,000,000, being the exchangeable note issued by a subsidiary of the Company, would be exchangeable into shares of Panva Gas from the date of issue up to the second anniversary of the date of issue. The outstanding unconverted principal amount of the note will be redeemed on 14 May 2004 at par. Interest is payable at 2% per annum.

28. SHARE CAPITAL

	Number of shares		Share capital	
	2002	2001	2002 HK\$'000	2001 HK\$'000
Authorised:				
Shares of HK\$0.1 each				
Balance as at 1 January	4,800,000,000	2,000,000,000	480,000	200,000
Increased during the year	–	2,800,000,000	–	280,000
Balance as at 31 December	<u>4,800,000,000</u>	<u>4,800,000,000</u>	<u>480,000</u>	<u>480,000</u>
Issued and fully paid:				
Balance as at 1 January	1,672,000,000	1,520,000,000	167,200	152,000
Bonus issue of shares	–	152,000,000	–	15,200
Share option exercised (note 34)	42,845,000	–	4,285	–
Convertible note converted	134,592,000	–	13,459	–
Balance as at 31 December	<u>1,849,437,000</u>	<u>1,672,000,000</u>	<u>184,944</u>	<u>167,200</u>

Notes:

On 26 October 2001, the Company issued 152,000,000 shares of HK\$0.10 each in the Company as bonus issue of shares on the basis of one new share of HK\$0.10 each for every ten existing shares of HK\$0.10 each held by the shareholders of the Company by the way of capitalization of the sum of HK\$15,200,000 standing to the credit of the share premium account of the Company. The new shares rank pari passu with the existing shares in all respects. On the same date, the authorised share capital increased by 2,800,000,000 share of HK\$0.1 each.

During the year, the subscription rights attached to 15,950,000 shares, 26,675,000 shares and 220,000 share options were exercised at the subscription price of HK\$0.33, HK\$0.41 and HK\$0.5 per share respectively resulting in the issue of 42,845,000 shares of HK\$0.1 each in the Company for a total cash consideration before expenses of HK\$16,310,250.

On 8 February 2002, convertible note of HK\$55,183,000 was converted into 134,592,000 at the price of HK\$0.41.

At 31 December 2002, the Company had outstanding 184,877,700 warrants to be exercised at any time on or before 29 November 2003. Each warrant entitled its holder to subscribe in cash at a price of HK\$1 for one ordinary share of the Group. Exercise in full of such warrants would result in the issue of 184,877,000 additional ordinary shares of HK\$0.1 each.

All the shares which were issued during the year rank pari passu with the then existing shares in all respects.

29. RESERVES

	Share premium account <i>HK\$'000</i>	Assets revaluation reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP									
At 1 January 2001	293,853	-	(5,742)	(5,985)	51,782	-	368,262	345,018	1,047,188
Exchange rate adjustment	-	-	8	-	-	-	-	-	8
Capitalisation of shares	(15,200)	-	-	-	-	-	-	-	(15,200)
Realised on disposal of a subsidiary	-	(1,096)	24	65	(177)	(207)	-	-	(1,391)
Revaluation of land and buildings	-	20,558	-	-	-	-	-	-	20,558
Contribution from a minority shareholder	-	-	-	-	-	1,065	-	-	1,065
Transfer from profit and loss account	-	-	-	-	6,117	-	-	(6,117)	-
Profit for the year	-	-	-	-	-	-	-	116,971	116,971
Dividend	-	-	-	-	-	-	-	(60,639)	(60,639)
At 31 December 2001	278,653	19,462	(5,710)	(5,920)	57,722	858	368,262	395,233	1,108,560
Exchange rate adjustment	-	-	(211)	-	-	-	-	-	(211)
Realised on disposal of a subsidiary	-	(10,611)	(294)	8,511	(3,821)	(77)	(480)	-	(6,772)
Premium arising on issue of shares	53,749	-	-	-	-	-	-	-	53,749
Transfer from profit and loss account	-	-	-	-	6,130	-	-	(6,130)	-
Profit for the year	-	-	-	-	-	-	-	294,429	294,429
Dividend	-	-	-	-	-	-	-	(55,483)	(55,483)
At 31 December 2002	<u>332,402</u>	<u>8,851</u>	<u>(6,215)</u>	<u>2,591</u>	<u>60,031</u>	<u>781</u>	<u>367,782</u>	<u>628,049</u>	<u>1,394,272</u>

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1 January 2001	293,853	572,173	70,392	936,418
Capitalisation of shares	(15,200)	–	–	(15,200)
Profit for the year	–	–	10,242	10,242
Dividend	–	–	(60,639)	(60,639)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	278,653	572,173	19,995	870,821
Premium arising on issue of shares	53,749	–	–	53,749
Profit for the year	–	–	94,722	94,722
Dividend	–	–	(55,483)	(55,483)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	<u>332,402</u>	<u>572,173</u>	<u>59,234</u>	<u>963,809</u>

Included in the above are the Group's share of post-acquisition reserves of its associates as follows:

	Accumulated loss <i>HK\$'000</i>
At 1 January 2002	(4,034)
Loss for the year, accumulated	(22,749)
	<hr/>
At 31 December 2002	<u>(26,783)</u>

The contributed surplus of the Company represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1998.

The contributed surplus of the Group represents the differences between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1998.

The general reserve represents the Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in accordance with the relevant laws and regulations of the PRC, which are not available for distribution.

The capital reserve represents the contribution from the minority shareholders of the subsidiaries waived.

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. 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.

In the opinion of the directors, the Company's reserves available for distribution to shareholders are as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Contributed surplus	572,173	572,173
Retained earnings	59,234	19,995
	<hr/>	<hr/>
	<u>631,407</u>	<u>592,168</u>

30. DISPOSAL OF A SUBSIDIARY

As referred to note 10, on 6 May 2002 the Group discontinued its electricity supply operations at the time of disposal of its subsidiary, Sinolink Industrial to Enerchina. The net assets of Sinolink Industrial at the date of disposal were as follows:

	2002 HK\$'000	2001 HK\$'000
Net (liabilities) assets disposed of:		
Property, plant and equipment	284,886	1,554
Interests in associate	564	–
Inventories	15,073	134
Trade receivables	9,613	109
Bank balances and cash	83,479	34
Other receivables, deposits and prepayments	3,518	60
Trade payables	(7,028)	(260)
Other payables and accruals	(20,167)	(450)
Loan from a minority shareholder of a subsidiary	(27,301)	–
Shareholder's loan	(137,902)	–
Tax payable	(483)	(258)
Bank borrowings	(174,144)	–
Minority interests	(31,238)	(706)
	(1,130)	217
Realisation of reserves on disposal:		
Properties revaluation account	(10,611)	–
Translation reserve	(294)	–
Goodwill reserve	8,511	–
General reserve	(3,821)	–
Capital reserve	(77)	–
Contributed surplus	(480)	–
Write back of provision made in prior year	–	(500)
	(7,902)	(283)
Deferred gain on disposal	77,000	–
Unrealised gain on disposal	68,987	–
Gain on disposal	84,048	283
Total consideration	222,133	–
Satisfied by:		
Cash consideration	163,035	–
Debt assignment	(137,902)	–
Loan	197,000	–
	222,133	–
Net cash inflow (outflow) arising on disposal:		
Cash received	163,035	–
Bank balance and cash disposed of	(83,479)	(34)
	79,556	(34)

According to the sale and purchase agreement dated 8 March 2002 (“Agreement”), the Group guaranteed Enerchina approximately RMB135,000,000 profit in respect of a subsidiary of Sinolink Industrial, Fuhuae for the two years ending 31 December 2003. According to the Agreement, balance of the consideration of HK\$197,000,000 shall be payable on demand.

On 6 May 2002, the Group acquired 29.99% of Enerchina which then became the associate of the Group. Accordingly, part of the gain on disposal of Sinolink Industrial because unrealised until the interest in Enerchina is disposed of.

31. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 90% and 99.5% of the registered capital of Pengxi Panva Gas Co., Ltd. and Weiyuan Panva Gas Co., Ltd.. Both acquisitions have been accounted for by the acquisition method of accounting. The amount of goodwill and negative goodwill arising as a result of the acquisitions was HK\$2,461,000 and HK\$9,485,000 respectively.

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	77,729	24,516
Other investments	344	782
Inventories	126	2,144
Trade receivables	782	55
Other receivables, deposits and prepayments	1,386	2,325
Tax recoverable	–	211
Bank and cash balances	1,033	6,984
Trade payables	(3,119)	(2,345)
Other payables and accruals	(34,960)	(32,421)
Borrowings	(660)	–
Minority interests	(1,282)	(1,559)
	<u>41,379</u>	<u>692</u>
Goodwill	2,461	13,340
Negative goodwill	(9,485)	–
	<u>34,355</u>	<u>14,032</u>
Total consideration	<u>34,355</u>	<u>14,032</u>
Satisfied by cash	<u>34,355</u>	<u>14,032</u>
Net cash outflow arising on acquisition:		
Cash consideration	(34,355)	(14,032)
Bank balances and cash acquired	1,033	6,984
	<u>(33,322)</u>	<u>(7,048)</u>

The subsidiaries acquired during the year contributed HK\$71,036,000 to the Group's turnover, and HK\$56,329,000 to the Group's profit from operations.

32. MAJOR NON-CASH TRANSACTIONS

During the year, a minority shareholder contributed HK\$Nil (2001: HK\$2,001,000) to the Group in the form of property, plant and equipment.

33. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions carried out during the year:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Skillful Assets Limited (<i>Notes a & b</i>)		
– Rental paid thereto (<i>Note c</i>)	1,047	1,200
Mr. Ou Yaping (<i>Note a</i>)		
– Convertible note interest paid thereto (<i>Note d</i>)	287	2,759
Shenzhen Xiangdu F. & E. Co., Ltd. (<i>Note a</i>)		
– Rental received therefrom an associate (<i>Note c</i>)	–	393
Enerchina (<i>Note a</i>)		
– Interest received therefrom an associate (<i>Note d</i>)	<u>3,886</u>	<u>–</u>

Notes:

- a. Transactions with these related parties are regarded as connected transactions as set out in Chapter 14 of the Listing Rules of the Stock Exchange.
- b. A company controlled by Mr. Ou Yaping and of which Mr. Ou Yaping is a director.
- c. Rental expenses were determined by the directors based on the directors' estimates of fair market value.
- d. The interest expense was determined in accordance with the loan agreement. The interest rate is 5% per annum for the convertible note and 3% per annum for the loan from Enerchina.

A subsidiary of the Group provided several guarantees to Fuhuade, a subsidiary of Enerchina, which is an associate of the Group amounting to RMB69 million. The guarantees are for a term of six years plus two years on a negotiation basis.

34. SHARE OPTION

The Company's share option schemes were adopted pursuant to the resolutions passed on 11 May 1998 (the "Old Scheme") and on 24 May 2002 (the "New Scheme") for providing incentives to directors and eligible employee and unless otherwise cancelled or amended. The New Scheme will expire on 23 May 2012. The Old Scheme was terminated on 24 May 2002. Under the Old Scheme and the New Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company, any of its subsidiaries, to subscribe for shares in the Company.

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

Option type	Outstanding at beginning of year	Granted during year	Exercised during year	Lapsed during year	Adjustment for the bonus issue during the year	Outstanding at end of year
For the year ended 31 December 2002	<u>103,796,000</u>	<u>45,800,000</u>	<u>42,845,000</u>	<u>58,380,000</u>	<u>-</u>	<u>48,371,000</u>
For the year ended 31 December 2001	<u>59,450,000</u>	<u>36,010,000</u>	<u>-</u>	<u>1,100,000</u>	<u>9,436,000</u>	<u>103,796,000</u>

Details of share options held by the Company's directors during the year are as follows:

	2002	2001
At 1 January	86,900,000	61,600,000
Granted during the year	27,800,000	25,300,000
Exercised during the year	(36,850,000)	-
Lapsed during the year	(44,000,000)	-
	<u>33,850,000</u>	<u>86,900,000</u>

No charge is recognised in the income statement in respect of the value of share options granted.

The consideration received during the year was HK\$56.

Details of share options granted during the year are as follows:

	2002 01.09.2004 to 23.04.2006	2001 01.01.2005 to 01.06.2006
Expiry date		
Exercise price	HK\$0.67 to HK\$0.81	HK\$0.33 to HK\$0.41
Aggregate proceeds if shares are issued	<u>HK\$32,226,000</u>	<u>HK\$12,939,000</u>

Details of share options exercised during the year are as follows:

	2002 03.09.2002 to 01.06.2006	2001
Expiry date		
Exercise price	HK\$0.33 to HK\$0.50	–
Aggregate issue proceeds	<u>HK\$16,310,000</u>	<u>–</u>

As at 31 December 2002, details of options are as follows:

	Expiry date	Exercise price	2002	2001
“In the money”	03.09.2002 to 01.01.2004	HK\$0.41 to HK\$0.50	330,000	20,185,000
	01.01.2005 to 01.06.2006	HK\$0.33 to HK\$0.41	12,441,000	39,611,000
“Out of money”	05.01.2002 to 01.09.2004 to 23.04.2006	HK\$0.55 to HK\$0.64 HK\$0.67 to HK\$0.81	– 35,600,000	44,000,000 –
			<u>48,371,000</u>	<u>103,796,000</u>

The exercise prices have been adjusted to reflect bonus share dividend issued during year 2001.

The share prices on the dates of exercise of options on 6 March 2002, 8 April 2002, 24 April 2002, 14 May 2002, 18 June 2002 and 5 August 2002 were HK\$0.66, HK\$0.72, HK\$0.90, HK\$1.12, HK\$0.82 and HK\$0.61 respectively.

The share prices on the dates of issue of shares upon exercise of options on 7 March 2002, 8 April 2002, 24 April 2002, 14 May 2002, 18 June 2002 and 5 August 2002 were HK\$0.67, HK\$0.72, HK\$0.79, HK\$1.12, HK\$0.82 and HK\$0.61 respectively.

35. RETIREMENT BENEFITS SCHEME

The Group provides a provident fund scheme for its Hong Kong employees and the scheme is funded by contributions from employers and employees. The amount of the Group’s contributions is based on a specified percentage of the basic salary of the employees concerned. Forfeited contributions in respect of unvested benefits of employees leaving the scheme prior to benefits being vested are used to reduce the Group’s ongoing contributions.

Moreover, pursuant to the relevant PRC regulations, relevant subsidiaries are required to contribute amounts ranging from approximately 7 to 25 per cent. of the aggregate staff wages to certain defined contribution retirement benefits schemes for the Group’s employees in the PRC.

Details of the contributions made by the Group during the year are as follows:

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Group contributions to staff provident fund	5,925	4,170
Forfeited contributions utilised	(33)	(94)
	<u>5,892</u>	<u>4,076</u>
Net contributions charged to operating profit	<u>5,892</u>	<u>4,076</u>
Un-utilised forfeited contributions	<u>—</u>	<u>—</u>

With the implementation of the Mandatory Provident Fund (“MPF”) Schemes Ordinance on 1 December 2000 in Hong Kong, the Group also participates in master trust MPF schemes operated by independent service providers. Mandatory contributions to these MPF schemes are made by both the employees and the Company at 5% of the employees’ monthly relevant income capped at HK\$20,000. As the Group’s retirement schemes in Hong Kong are non MPF-exempt recognised occupational retirement schemes (“ORSO schemes”), all the existing members have to lapse their ORSO schemes and participate in the MPF schemes from 1 December 2000.

36. CONTINGENT LIABILITIES

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Guarantees given to banks as security for the mortgage loans arranged for the purchasers of the Group’s properties	<u>254,546</u>	<u>122,026</u>
Corporate guarantee given to a bank to secure bank borrowings granted to an associate	<u>279,701</u>	<u>—</u>

	THE COMPANY	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Corporate guarantee given to a bank to secure general banking facilities granted to a subsidiary	<u>514,500</u>	<u>594,500</u>

On 17 May 1996, a legal claim in the amount of approximately HK\$13,585,000 was brought against Sinolink Worldwide (HK) Company Limited by a third party for charter hire charges overdue. After consultation with the legal adviser in relation to this litigation, the Directors believe that the claim will not have any material adverse effect on the financial position of the Group. No provision for loss has therefore been made by the Group in respect of the outstanding claim. Mr. Ou Yaping, the controlling shareholder of the Company, has agreed to indemnify the Group in connection with any amount payable and all expenses incurred (including legal costs) by Sinolink Worldwide (HK) Company Limited arising from or in connection with this claim in the event that Sinolink Worldwide (HK) Company Limited is unsuccessful in defending the claim.

37. CAPITAL COMMITMENTS

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Commitments in respect of properties under development:		
– authorised but not contracted for	1,429,652	34,549
– contracted for but not provided in the financial statements	<u>110,607</u>	<u>113,898</u>
	1,540,259	148,447
Commitments in respect of interest in subsidiaries contracted for but not provided in the financial statements	<u>87,618</u>	<u>92,473</u>
	<u>1,627,877</u>	<u>240,920</u>

The Company had no capital commitments at the balance sheet date.

38. LEASE COMMITMENTS

At the balance sheet date, the Group had contracted with tenants for future minimum lease receipts in respect of land and buildings under non-cancellable operating leases which expire as follows:

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	225	757
In the second to fifth year inclusive	2	139
	<u>227</u>	<u>896</u>

The properties held has committed tenants for the periods up to two years after the balance sheet date.

At the balance sheet date, the Group and the Company had the following outstanding commitments in respect of land and buildings under non-cancellable operating leases which expire as follows:

	THE GROUP		THE COMPANY	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	7,739	3,067	1,560	1,560
In the second to fifth years inclusive	11,634	3,213	845	2,665
Over five years	20,724	30,061	-	-
	<u>40,097</u>	<u>36,341</u>	<u>2,405</u>	<u>4,225</u>

The operating leases are negotiated for terms up to 30 years.

39. PLEDGE OF ASSETS

The Group has pledged its land held under medium term leases included in the properties under development for sale, having a net book value of approximately HK\$388,030,000 (2001: HK\$230,899,000) to secure general banking facilities granted to a subsidiary of the Company.

In addition, the Group had pledged property, plant and equipment having a net book value amounting to approximately HK\$8,135,000 (2001: HK\$8,337,000) to secure bank loans granted to the subsidiaries of the Company.

40. POST BALANCE SHEET EVENT

On 6 March 2003, Enerchina completed a rights issue exercise of three rights shares for every two existing shares held. Smart Orient Investments Limited, a wholly owned subsidiary of the Company, acted as the underwriter of the rights issue. A total of 5,525,888,349 shares were issued as a result raising approximately HK\$106,000,000. Upon completion of the rights issue, the Group increased its interests in Enerchina from 29.99% to 40.44%.

On 23 April 2003, Panva Gas issued Convertible Bonds due 2008 in the aggregate amount of US\$50 million (the "CB"). The conversion price of the CB was fixed at HK\$3.9169 per share representing a conversion premium of approximately 20% to the volume weighted average price of HK\$3.2641 per share for 11 April 2003, the date on which the conversion price was fixed. The CB will bear interests of 2% per annum payable semi-annually in arrears each year. The CB will be listed on the Luxemburg Stock Exchange.

WORKING CAPITAL

The Directors are of the opinion that, taking into account the Facility available under the Facility Agreement and based on the internal resources of the Group, the Group has sufficient working capital for its present requirement for the next 12 months from the date of this circular.

INDEBTEDNESS**Borrowings**

At the close of business on 31 October 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$2,972.7 million, comprising secured bank borrowings of approximately HK\$282.1 million, unsecured bank borrowings of approximately HK\$680.5 million, unsecured other loans of approximately HK\$10.1 million, an unsecured and non-interest bearing advances from minority shareholders of approximately HK\$6.5 million, convertible note of approximately HK\$62.5 million, convertible bonds due 2008 of approximately HK\$372.0 million and senior notes due 2011 of approximately US\$200.0 million (HK\$1,559.0 million) respectively. The bank borrowings were repayable within 1 to 7 years.

Save as aforesaid and apart from intra-group liabilities, the Group did not have as at 31 October 2004 any material outstanding liabilities in respect of mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, or hire purchase commitments or any guarantees or other contingent liabilities.

Contingent liabilities

The Group had no material contingent liabilities as at 31 October 2004.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorized or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 31 October 2004.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2003, the date to which the latest published audited consolidated accounts of the Group were made up.

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

A. INTERIM FINANCIAL INFORMATION (reproduced from Enerchina's Interim Report for six months ended 30 June 2004)

Set out below is the unaudited condensed consolidated profit and loss account, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and notes to the condensed financial statements reproduced from the Interim Report of the Enerchina Group for the six months ended 30 June 2004.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Notes	Six months ended	
		30.6.2004 (unaudited) HK\$'000	30.6.2003 (unaudited) HK\$'000
Turnover	3	364,675	187,786
Cost of sales		(287,664)	(162,624)
Gross profit		77,011	25,162
Other operating income		2,727	5,988
Administrative expenses		(14,484)	(10,404)
Other operating expenses		(5,841)	(3,971)
Profit from operations		59,413	16,775
Finance costs		(7,555)	(6,930)
Loss on disposal of discontinued operation		–	(126)
Profit before taxation		51,858	9,719
Taxation	5	(4,458)	–
Profit after taxation		47,400	9,719
Minority interests		(17,532)	(4,652)
Net profit for the period		<u>29,868</u>	<u>5,067</u>
Earnings per share	7		
– Basic		<u>HK 1.55 cents</u>	<u>HK 1.04 cents</u>
– Diluted		<u>HK 1.54 cents</u>	<u>N/A</u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2004

	<i>NOTES</i>	30.6.2004 <i>HK\$'000</i> (unaudited)	31.12.2003 <i>HK\$'000</i> (audited)
Non-current assets			
Property, plant and equipment	8	1,010,348	628,993
Goodwill		199,402	204,993
Investments in securities		91,773	84,674
		1,301,523	918,660
Current assets			
Inventories		119,349	38,700
Trade and other receivables	9	174,995	94,284
Amount due from an associate		46	46
Dividend receivable		3,475	3,475
Pledged bank deposit	10	83,372	13,861
Bank balances and cash		1,090,027	348,794
		1,471,264	499,160
Current liabilities			
Trade and other payables	11	144,146	91,869
Tax liabilities		13,357	8,899
Amount due to a shareholder		15,644	15,686
Loan from a minority shareholder of a subsidiary		12,914	12,914
Loan from a shareholder		–	75,000
Secured bank borrowings – due within one year	12	407,100	147,821
		593,161	352,189
Net current assets		878,103	146,971
Total assets less current liabilities		2,179,626	1,065,631
Non-current liabilities			
Secured bank borrowings – due after one year	12	803,742	337,680
		1,375,884	727,951
Minority interests		84,445	66,913
		1,291,439	661,038
Capital and Reserves			
Share capital	13	22,883	7,628
Reserves		1,268,556	653,410
		1,291,439	661,038

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated profits (losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	36,322	388,075	326,903	(471,237)	280,063
Rights issue – February 2003	54,484	54,484	–	–	108,968
Issue expenses – February 2003	–	(3,614)	–	–	(3,614)
Rights issue – December 2003	4,903	191,236	–	–	196,139
Issue expenses – December 2003	–	(4,192)	–	–	(4,192)
Shares subscription	454	26,786	–	–	27,240
Shares subscription expenses	–	(1,032)	–	–	(1,032)
Capital reduction	(88,535)	–	88,535	–	–
Utilisation of contributed surplus against accumulated losses	–	–	(415,438)	415,438	–
Net profit for the year	–	–	–	57,466	57,466
Balance at 1 January 2004	7,628	651,743	–	1,667	661,038
Open offer – March 2004	15,255	594,955	–	–	610,210
Issue expenses – March 2004	–	(9,677)	–	–	(9,677)
Net profit for the period	–	–	–	29,868	29,868
Balance at 30 June 2004	<u>22,883</u>	<u>1,237,021</u>	<u>–</u>	<u>31,535</u>	<u>1,291,439</u>
At 1 January 2003	36,322	388,075	326,903	(471,237)	280,063
Rights issue – February 2003	54,484	54,484	–	–	108,968
Issue expenses – February 2003	–	(3,614)	–	–	(3,614)
Capital reduction	(88,535)	–	88,535	–	–
Net profit for the period	–	–	–	5,067	5,067
Balance at 30 June 2003	<u>2,271</u>	<u>438,945</u>	<u>415,438</u>	<u>(466,170)</u>	<u>390,484</u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Six months ended	
	30.6.2004	30.6.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Net cash outflow from operating activities	(20,010)	(46,715)
Net cash outflow from investing activities	(482,474)	(31,334)
Net cash inflow from financing activities	1,243,717	109,384
	<hr/>	<hr/>
Increase in cash and cash equivalents	741,233	31,335
Bank balances and cash at beginning of the period	348,794	85,236
	<hr/>	<hr/>
Bank balances and cash at end of the period	<u>1,090,027</u>	<u>116,571</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2004

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

3. SEGMENT INFORMATION

For management purposes, the Group is organised into two operating divisions – electricity supplies and investment holding. The property leasing division ceased to operate in 2003.

Business segments

Six months ended 30 June 2004

	Electricity supplies <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	<u>364,675</u>	<u>–</u>	<u>364,675</u>
Segment result	<u>65,027</u>	<u>–</u>	65,027
Interest income			478
Unallocated corporate expenses			<u>(6,092)</u>
Profit from operations			<u>59,413</u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

Six months ended 30 June 2003

	Continuing operations		Discontinued operation	Consolidated <i>HK\$'000</i>
	Electricity supplies <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	
Turnover	187,786	–	–	187,786
Segment result	<u>19,709</u>	<u>1,818</u>	<u>(10)</u>	21,517
Interest income				310
Unallocated corporate expenses				<u>(5,052)</u>
Profit from operations				<u><u>16,775</u></u>

4. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK\$24,987,000 (1.1.2003 to 30.6.2003: HK\$17,436,000) was charged in respect of the Group's property, plant and equipment and amortisation of HK\$5,591,000 (1.1.2003 to 30.6.2003: HK\$3,716,000) was charged in respect of the goodwill arising from acquisition of subsidiaries.

5. TAXATION

	THE GROUP	
	Six months ended 30.6.2004 <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>
Current tax:		
PRC income tax	(4,458)	–
Taxation attributable to the Company and its subsidiaries	<u>(4,458)</u>	<u>–</u>

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

Pursuant to relevant laws and regulations in the People's Republic of China (the "PRC"), one of the Group's subsidiaries operating in the PRC is entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit making year of operations and thereafter, that subsidiary is entitled to a 50% relief from PRC Enterprise Income Tax for the following six years. The reduced tax rate for the relief period is 7.5%.

No provision for deferred taxation has been recognised in the condensed financial statements as the amount involved is insignificant.

6. DIVIDENDS

The directors do not declare an interim dividend (1.1.2003 to 30.6.2003: nil).

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

7. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2004 <i>HK\$'000</i>	30.6.2003 <i>HK\$'000</i>
Earnings		
Net profit for the purposes of basic and diluted earnings per share	<u>29,868</u>	<u>5,067</u>
	Number of shares	
	30.6.2004	30.6.2003
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,933,087,279	488,823,695
Effect of dilutive share options	<u>6,676,427</u>	<u>N/A</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>1,939,763,706</u>	<u>488,823,695</u>

The weighted average number of ordinary shares for the purposes of basic earnings per share has been adjusted for the open offer during the period.

No diluted earnings per share had been calculated for the prior period as the exercise price of the Company's options was higher than the average market price for shares in that period.

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$406,342,000 (1.1.2003 to 30.6.2003: HK\$39,509,000) on acquisition of property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables totalling HK\$123,723,000 (31.12.2003: HK\$76,879,000), the aged analysis of which is as follows:

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Aged:		
0 to 60 days	<u>123,723</u>	<u>76,879</u>

10. PLEDGED OF ASSETS

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
To secure the general banking facilities granted to the Group:		
Bank deposits	<u>83,372</u>	<u>13,861</u>

Details of pledge of assets in respect of bank borrowings are set out in note 12 to the condensed financial statements.

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$87,121,000 (31.12.2003: HK\$24,650,000), the aged analysis of which is as follows:

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged:		
0 to 60 days	86,584	22,882
61 to 120 days	537	–
Over 180 days	–	1,768
	<u>87,121</u>	<u>24,650</u>

12. SECURED BANK BORROWINGS

During the period, the Group borrowed and repaid bank loans of HK\$761,132,000 and HK\$35,791,000 respectively. The loans bear interest at market rates and are repayable in one to six years.

At the balance sheet date, an aggregate amount of RMB870,000,000 (equivalent to approximately HK\$813,000,000) and US\$33,300,000 (equivalent to approximately HK\$259,000,000) were secured by the plant and machinery and leasehold land and buildings of the Group with a carrying value of HK\$914,904,000 and HK\$92,410,000 respectively.

13. SHARE CAPITAL

	Number of shares	Share capital
		<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2004	2,500,000,000	25,000
Increase of authorised share capital (<i>note</i>)	2,500,000,000	25,000
At 30 June 2004	<u>5,000,000,000</u>	<u>50,000</u>
Issued and fully paid:		
At 1 January 2004	762,762,968	7,628
Open offer – March 2004 (<i>note</i>)	1,525,525,936	15,255
At 30 June 2004	<u>2,288,288,904</u>	<u>22,883</u>

Note:

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.

14. OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented properties, which fall due as follows:

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Within one year	4,940	4,940
In the second to fifth year inclusive	7,391	9,861
	<u>12,331</u>	<u>14,801</u>

15. RELATED PARTY TRANSACTIONS

- (a) During the period ended 30 June 2004, the Group paid office expenses of HK\$394,000 (1.1.2003 to 30.6.2003: HK\$394,000) to Sinolink Worldwide Holdings Limited (“Sinolink”), a substantial shareholder of the Company. The office expense is determined with reference to actual costs incurred.
- (b) The Group incurred an interest expense of HK\$152,000 (1.1.2003 to 30.6.2003: HK\$2,640,000) in respect of the shareholder’s loan from Sinolink. The shareholder’s loan has been fully repaid during the period.

16. CAPITAL COMMITMENTS

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>332,534</u>	<u>353,118</u>

MANAGEMENT DISCUSSION & ANALYSIS

During the period under review, the Group recorded consolidated turnover of HK\$364.7 million, representing an increase of 94.2% over the same period last year. The net profit for the period was HK\$29.9 million, a significant increase of 4.9 times as compared to the same period last year. The basic earnings per share was HK1.55 cents, an increase of 49.0% as compared to same period last year and the net asset value per share as at 30 June 2004 was HK\$0.56.

BUSINESS REVIEW

Electricity generation

In the first half of 2004, despite the fact that the government of the People’s Republic of China (the “PRC”) introduced macroeconomic measures to adjust its economy, the growth of both power generation and consumption remained high in the PRC. In fact, due to the shortage of electricity supply over demand, several provinces in the PRC had taken measures to restrict electricity consumption. The gross domestic products in the PRC grew by 9.7% over the period under review and the power generation industry grew at an even greater rate with the total domestic electricity consumption grew by approximately 15.8% in the same period.

In order to meet this tremendous demand for electricity, the Group continues to seek opportunities to further expand its capacity and on 2 January 2004, the Group was granted an in-principle approval from the relevant government authority to install additional 180,000 kilowatts to its total installed power generating capacity. Together with the existing power generating units and the expansions already in progress, the installed capacity of the Group will reach a total of 665,000 kilowatts after completion of the abovementioned expansions. The increased installed capacity together with the tremendous demand for power generation in the PRC creates favourable conditions for our growth in this industry.

FINANCIAL REVIEW

During the six months ended 30 June 2004, the Group sold 633.5 million kilowatt hour of electricity, representing an increase of 1 time as compared to 313.3 million kilowatt hour over the same period last year. This increase mainly contributed by the full six months period operation of the second combined cycle generating unit which commenced commercial production in May 2003. The consolidated turnover also increased by 94.2% to HK\$364.7 million.

The direct operating expenses also increased in line with the power generation to HK\$287.7 million. The primary direct operating expense of the Group was fuel cost. During the period under review, the Group incurred a total fuel cost of HK\$246.2 million. The higher fuel cost was primarily due to the staggering high world oil price in the first half of 2004 in response to the various uncertainties encountered in the oil producing regions. In order to cope with this difficult situation, the management had carried out various remedial measures, including strengthening of fuel procurement and inventory control, so as to minimize the impact to the Group as a whole. The management considered the remedial measures were effective and the result was satisfactory.

The finance costs of the Group were increased by 9.0% to HK\$7.6 million. The increase was mainly attributable to the additional financing for the construction of the third combined cycle generating unit at Dapeng Town, Shenzhen.

Net profit was HK\$29.9 million. The encouraging performance was the results of the increase in power generation and the management's effective cost control measures. Based on the weighted average of 1,933,087,279 shares in issue during the period, the basic earning per share was HK1.55 cents.

FINANCIAL POSITION

The Group's total borrowings increased from HK\$485.5 million as at 31 December 2003 to HK\$1,210.8 million as at 30 June 2004. The increase is mainly due to raising of additional bank loans to finance the expansion of the Fuhuade Power Plant. The overall gearing ratio, which is calculated as total borrowings over total assets of the Group, was 43.7%. The proportion of borrowings due within one year to total borrowings also increased from 30.4% as at 31 December 2003 to 33.6% and a long term liabilities to equity ratio of 62.2%.

Total assets pledged in securing these loans have a net book value of HK\$1,007.3 million as at 30 June 2004. All the bank borrowings of the Group are at floating rates and denominated in both RMB and US dollars. As the entire operation of the Group is carried out in the PRC, substantial receipts and payments in relation to the operations are denominated in RMB. When appropriate, financial instruments were used for hedging purpose to minimize exchange rate and commodity price exposures.

The Group's cash and cash equivalents amounted to approximately HK\$1,173.4 million as at 30 June 2004 and are mostly denominated in RMB, Hong Kong dollars and US dollars.

CONTINGENT LIABILITIES

A supplier filed an arbitration in August 2003 against Fuhuade Power Plant claiming for additional contract price in the amount of HK\$28.0 million. The arbitration is still in progress and the outcome of such cannot be ascertained. No provision for the amount claimed has been made by the Group as at 30 June 2004. Save as the outstanding arbitration, the Group has no material contingent liabilities as at 30 June 2004.

CAPITAL COMMITMENTS

As at 30 June 2004, the Group had capital commitments in respect of the acquisition of property, plant and equipment amounted to HK\$332.5 million.

PROSPECTS

In the second half of 2004, the Group expects its third combined cycle generating unit with the installed capacity of 180,000 kilowatts, to complete its construction, test running and commences production in September 2004 as scheduled. The Group will also monitor closely the construction progress of its fourth combined cycle generating unit to achieve at least on schedule or earlier than scheduled completion date of second quarter of 2005.

In response to the strong demand for electricity in the PRC, the Group is also conducting feasibility studies towards switching to the utilization of natural gas as fuel and to further expand its capacity to 1,000,000 kilowatts or by exploring new projects in the markets to ensure the Group can maintain a high growth rate in the future.

On the operational side, the soaring oil price poses challenges for the Group to continue to monitor closely to the oil price movement in the world market and enforce stringent control over the inventory level and further strengthen the procurement procedures to control over our fuel costs.

The implementation of such reforms will further increase the Group's power generation capacity and operation efficiency, which in turn will bring stable returns to its shareholders.

MAJOR EVENTS

On 19 February 2004, the Board proposed an open offer of 1,525,525,936 offer shares of HK\$0.01 each at HK\$0.40 per offer share on the basis two offer shares for every existing share held. Sinolink Worldwide Holdings Limited ("Sinolink"), through its wholly owned subsidiary, acted as the underwriter of the open offer. The Company raised approximately HK\$600.5 million from the open offer and the transaction was completed on 19 April 2004.

Upon completion of the open offer, the beneficial shareholding of Sinolink in the issued share capital of the Company was increased from 33.7% to 37.1%.

EMPLOYEES AND REMUNERATION POLICIES

At 30 June 2004, the Group employed approximately 188 full time employees. The Group recognizes the importance of high calibre and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. In addition, share options may be granted to certain eligible directors and employees of the Group in accordance with the terms of the approved share option scheme adopted by the Group.

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

B. AUDITED FINANCIAL INFORMATION (reproduced from Enerchina's Annual Report for the year ended 31 December 2003)

Set out below is the audited consolidated income statement, consolidated balance sheet, balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and notes to the financial statements reproduced from the audited accounts published in Enerchina's Annual Report for the year ended 31 December 2003.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
Turnover	4	559,797	115,245
Cost of sales and direct operating expenses		(415,478)	(94,460)
Gross profit		144,319	20,785
Other income	6	6,951	1,093
Administrative and selling expenses		(23,216)	(19,683)
Impairment loss of investment in an option		–	(48,986)
Loss arising from investment properties	7	–	(5,167)
Impairment loss of investment securities		–	(13,300)
Other operating expenses	8	(11,516)	(7,559)
Profit (loss) from operations	9	116,538	(72,817)
Finance costs	10	(18,384)	(5,666)
Loss on disposal of an associate/subsidiaries		(38)	(2,135)
Amortisation of premium on acquisition of associates		–	(3,655)
Share of results of associates		–	2,611
Profit (loss) before taxation		98,116	(81,662)
Income taxes	14	(8,899)	(111)
Profit (loss) before minority interests		89,217	(81,773)
Minority interests		(31,751)	(3,924)
Net profit (loss) for the year		<u>57,466</u>	<u>(85,697)</u>
Earnings (loss) per share – Basic	15	<u>17.23 cents</u>	<u>(56.80) cents</u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

CONSOLIDATED BALANCE SHEET

At 31 December 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Investment properties	17	–	670
Property, plant and equipment	18	628,993	568,881
Goodwill	20	204,993	141,174
Interests in associates	21	–	563
Investments in securities	22	84,674	84,674
		918,660	795,962
Current assets			
Inventories	23	38,700	23,942
Debtors, deposits and prepayments	24	94,284	97,038
Amount due from an associate	25	46	–
Dividend receivable		3,475	3,475
Pledged bank deposits	34	13,861	4,091
Bank balances and cash		348,794	85,236
		499,160	213,782
Current liabilities			
Creditors and accrued charges	24	91,869	98,091
Amount due to an associate	25	–	5,520
Amount due to a shareholder	25	15,686	4,286
Loan from a minority shareholder of a subsidiary	25	12,914	28,054
Taxation payable		8,899	483
Loan from a shareholder	26	75,000	–
Secured bank borrowings – due within one year	27	147,821	–
		352,189	136,434
Net current assets		146,971	77,348
		1,065,631	873,310
Capital and reserves			
Share capital	28	7,628	36,322
Reserves		653,410	243,741
		661,038	280,063
Minority interests		66,913	35,162
Non-current liabilities			
Secured bank borrowings – due after one year	27	337,680	361,085
Loan from a shareholder	26	–	197,000
		337,680	558,085
		1,065,631	873,310

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

BALANCE SHEET

At 31 December 2003

	<i>NOTES</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	18	–	73
Interests in subsidiaries	19	443,116	443,116
		<u>443,116</u>	<u>443,189</u>
Current assets			
Debtors, deposits and prepayments		3,895	4,051
Amount due from an associate	25	46	–
Bank balances and cash		212,351	20,229
		<u>216,292</u>	<u>24,280</u>
Current liabilities			
Creditors and accrued charges		4,451	1,287
Amount due to an associate	25	–	5,520
Loan from a shareholder	26	75,000	–
Amount due to a shareholder	25	438	3,886
		<u>79,889</u>	<u>10,693</u>
Net current assets		<u>136,403</u>	<u>13,587</u>
		<u><u>579,519</u></u>	<u><u>456,776</u></u>
Capital and reserves			
Share capital	28	7,628	36,322
Reserves	30	571,891	223,454
		<u>579,519</u>	<u>259,776</u>
Non-current liability			
Loan from a shareholder	26	–	197,000
		<u>579,519</u>	<u>456,776</u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

	Share capital <i>HK\$'000</i> <i>(note 28)</i>	Share premium <i>HK\$'000</i> <i>(note 30)</i>	Translation reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i> <i>(note 30)</i>	Accumulated profits (losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2002	363,225	388,075	18	–	(385,540)	365,778
Exchange difference arising on translation of overseas operations and net loss not recognised in the income statement	–	–	(443)	(443)	–	–
Capital reduction	(326,903)	–	–	326,903	–	–
Released upon disposal of subsidiaries	–	–	18	–	–	18
Reclassification of an associate to investments in securities	–	–	407	–	–	407
Net loss for the year	–	–	–	–	(85,697)	(85,697)
Balance at 31 December 2002	36,322	388,075	–	326,903	(471,237)	280,063
Rights issue – February 2003	54,484	54,484	–	–	–	108,968
Issue expenses – February 2003	–	(3,614)	–	–	–	(3,614)
Rights issue – December 2003	4,903	191,236	–	–	–	196,139
Issue expenses – December 2003	–	(4,192)	–	–	–	(4,192)
Shares subscription	454	26,786	–	–	–	27,240
Shares subscription expenses	–	(1,032)	–	–	–	(1,032)
Capital reduction	(88,535)	–	–	88,535	–	–
Utilization of contributed surplus against accumulated losses	–	–	–	(415,438)	415,438	–
Net profit for the year	–	–	–	–	57,466	57,466
Balance at 31 December 2003	<u>7,628</u>	<u>651,743</u>	<u>–</u>	<u>–</u>	<u>1,667</u>	<u>661,038</u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	<i>NOTES</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
OPERATING ACTIVITIES			
Profit (loss) before taxation		98,116	(81,662)
Adjustments for:			
Depreciation		44,980	11,577
Amortisation of goodwill		11,181	7,454
Amortisation of premium on acquisition of associates		–	3,655
Interest expense		18,384	5,666
Interest income		(575)	(843)
Loss on disposal of property, plant and equipment		252	–
Loss on disposal of investment properties		126	5,137
Loss on disposal of an associate/subsidiaries		38	2,135
Impairment loss of investment in an option		–	48,986
Impairment loss of investment securities		–	13,300
Deficit arising on revaluation of investment properties		–	30
Share of results of associates		–	(2,611)
		172,502	12,824
Operating cash flows before movements in working capital		172,502	12,824
Increase in inventories		(14,758)	(8,869)
Increase in debtors, deposits and prepayments		(72,246)	(7,573)
(Decrease) increase in creditors and accrued charges		(6,874)	68,204
Tax paid in other jurisdiction		(268)	–
		78,356	64,586
NET CASH FROM OPERATING ACTIVITIES		78,356	64,586
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(100,973)	(285,900)
(Increase) decrease in pledged bank deposits		(9,770)	3,749
Advance to an associate		(46)	–
Interest received		575	2,069
Proceeds from disposal of investment properties		544	22,353
Proceed from disposal of an associate		525	–
Proceeds from disposal of property, plant and equipment		3	–
Purchase of subsidiaries (net of cash and cash equivalents acquired)	32	–	(79,921)
Purchase of investment in securities		–	(436)
Disposal of subsidiaries (net of cash and cash equivalents)	33	–	26,133
Repayment of amount due from an associate		–	5,265
Loan repayment from a former associate		–	5,000
		(109,142)	(301,688)
NET CASH USED IN INVESTING ACTIVITIES		(109,142)	(301,688)

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

	<i>NOTES</i>	2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
FINANCING ACTIVITIES			
New bank loans raised		640,120	303,630
Proceeds from rights issue of shares		297,301	–
Proceeds from shares subscription		26,208	–
Advanced from a shareholder		15,286	400
Repayment of bank loans		(515,704)	(134,729)
Repayment of shareholder's loan		(122,000)	–
Interest paid on banks and other borrowings		(26,207)	(10,615)
Repayment of loan from a minority shareholder of a subsidiary		(15,140)	–
(Repayment of) advance from an associate		(5,520)	4,756
		<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES		294,344	163,442
		<hr/>	<hr/>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		263,558	(73,660)
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		85,236	158,896
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		348,794	85,236
– Bank balances and cash		<u><u>348,794</u></u>	<u><u>85,236</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

1. GENERAL

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

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

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

Goodwill

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

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

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

Investments in subsidiaries

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

Investments in associates

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

Revenue recognition

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

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

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

Property, plant and equipment

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

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

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

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

Construction in progress

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

Impairment

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

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

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

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

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

Inventories

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

Borrowing costs

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

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

Taxation

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

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

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

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

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

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

Operating leases

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

Foreign currencies

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

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

Retirement benefits scheme

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

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

4. TURNOVER

2003
HK\$'000

2002
HK\$'000

Turnover of the Group is analysed as follows:

Electricity supplies	559,797	114,792
Property leasing	–	453
	<u>559,797</u>	<u>115,245</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Segment information about these businesses is presented below.

Year ended 31 December 2003

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

Year ended 31 December 2002

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

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

Balance sheet

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

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

Geographical segments

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

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

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

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

6. OTHER INCOME

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

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

7. LOSS ARISING FROM INVESTMENT PROPERTIES

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

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

8. OTHER OPERATING EXPENSES

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

9. PROFIT (LOSS) FROM OPERATIONS

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) from operations has been arrived at after charging:		
Auditors' remuneration		
Depreciation and amortisation:	474	823
Owned assets	44,980	11,577
Minimum lease payment under operating lease in respect of rented premises	4,940	1,589
Staff costs:		
Retirement benefits scheme contributions	138	201
Staff costs (including Directors' remuneration)	15,043	9,113
Total staff costs	15,181	9,314
Cost of inventories recognised as an expense	355,118	77,803
	<u>19,605</u>	<u>91,717</u>
and after crediting:		
Operating lease rental income in respect of investment properties, net of outgoings of HK\$nil (2002: HK\$128,000)	–	325
	<u>–</u>	<u>325</u>

10. FINANCE COSTS

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

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

11. DISCONTINUING OPERATION

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

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

	1.1.2003 to date of disposal HK\$'000	Year ended 31.12.2002 HK\$'000
Turnover	–	453
Operating costs	(10)	(5,064)
Finance costs	–	(284)
	<u>–</u>	<u>(5,095)</u>
Net loss for the period	<u>(10)</u>	<u>(4,895)</u>

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

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

12. DIRECTORS' REMUNERATION

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

Emoluments of the directors were within the following bands:

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

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

13. EMPLOYEES' EMOLUMENTS

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

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

Their emoluments are within the following band:

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

14. INCOME TAXES

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

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

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

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

Details of deferred taxation are set out in note 31.

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

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

15. EARNINGS (LOSS) PER SHARE

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

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

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

16. DIVIDEND

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

17. INVESTMENT PROPERTIES

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

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

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

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

18. PROPERTY, PLANT AND EQUIPMENT

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

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

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

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

19. INTERESTS IN SUBSIDIARIES

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

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

20. GOODWILL

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

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

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

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

21. INTERESTS IN ASSOCIATES

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

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

22. INVESTMENTS IN SECURITIES

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

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

23. INVENTORIES

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

The inventories are stated at cost.

24. DEBTORS AND CREDITORS

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

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

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

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

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

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

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

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

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

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

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

THE GROUP AND THE COMPANY

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

26. LOAN FROM A SHAREHOLDER

THE GROUP AND THE COMPANY

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

27. SECURED BANK BORROWINGS

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

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

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

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

28. SHARE CAPITAL

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

Notes:

- (a) During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.
- (b) Pursuant to an ordinary resolution passed on a special general meeting held on 10 February 2003, the Company issued 5,448,368,349 rights shares of HK\$0.01 each at HK\$0.02 per rights share in proportion of three rights shares for every two existing shares held.
- (c) Pursuant to the resolutions passed on a special general meeting held on 22 April 2003. The share capital of the Company was changed as follows:
 - The ordinary shares of the Company in their consolidated form, every forty issued and unissued shares of HK\$0.01 each in the capital of the Company, were consolidated into one share of HK\$0.40 (“Consolidated Shares”) in the capital of the Company;
 - The authorised share capital of the Company was reduced from HK\$300,000,000 divided into 750,000,000 Consolidated Shares to HK\$7,500,000 divided into 750,000,000 ordinary shares of HK\$0.01 each and that such reduction was effected by (i) reducing the issued share capital of the Company from HK\$90,806,000 to HK\$2,270,000 by cancelling paid up share capital to the extent of HK\$0.39 on each Consolidated Shares in issue; and (ii) by reducing the nominal value of each issued and unissued Consolidated Shares from HK\$0.40 to HK\$0.01; and
 - The credit of HK\$88,535,000 arising from the reduction of issued capital of the Company was transferred to the contributed surplus.

- (d) Pursuant to an ordinary resolution passed at the special general meeting held on 4 December 2003, the authorised share capital of the Company was increased from HK\$7,500,000 to HK\$25,00,0000 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.

29. SHARE OPTION SCHEME

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

Pursuant to an ordinary resolution passed on the special general meeting held on 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 and the 1993 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company’s shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders.

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

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

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

Option scheme	Outstanding at 1.1.2003	Lapsed during year (Note 1)	Adjustment (Note 2)	Outstanding at 31.12.2003 (Note)
1993 Scheme	51,680,000	–	(42,636,000)	9,044,000
Option scheme	Outstanding at 1.1.2002	Lapsed during year	Adjustment	Outstanding at 31.12.2002 (Note)
1993 Scheme	208,000,000	(156,320,000)	–	51,680,000

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

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

Notes:

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

Details of specific categories of options are as follows:

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

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

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

30. RESERVES

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

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

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

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

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

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

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

31. DEFERRED TAXATION

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

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

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

32. ACQUISITION OF SUBSIDIARIES

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

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

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2002
HK\$'000

Satisfied by:

Cash paid	163,400
Deferred consideration (shareholder loan)	197,000
Debt assignment	(137,902)
Receivable in respect of adjustment to purchase consideration	(75,000)
	147,498

Net cash outflow arising on acquisition:

Cash consideration	(163,400)
Bank balances and cash acquired	83,479
	(79,921)

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

33. DISPOSAL OF SUBSIDIARIES

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

2002
HK\$'000

Net assets disposed of:

Interests in associates	34,764
Investments in securities	7,000
Debtors, deposits and prepayments	18
Creditors and accrued charges	(1)
	41,781
Translation reserve released	18
Loss on disposal	(2,135)
	39,664

Net cash inflow arising on disposal:

Cash consideration	39,679
Less: Deposit received in prior year	(13,531)
Less: Legal and professional fee	(15)
	26,133

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

34. PLEDGE OF ASSETS

THE GROUP

2003 **2002**
HK\$'000 *HK\$'000*

To secure the general banking facilities granted to the Group:

Investment properties	—	—
Bank deposits	13,861	4,091
	<u>13,861</u>	<u>4,091</u>

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

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

35. CONTINGENT LIABILITIES

THE GROUP

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

36. OPERATING LEASE ARRANGEMENT

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

2003 **2002**
HK\$'000 *HK\$'000*

Within one year	4,940	662
In the second to fifth year inclusive	9,861	—
	<u>14,801</u>	<u>662</u>

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

37. CAPITAL COMMITMENTS

THE GROUP

2003 **2002**
HK\$'000 *HK\$'000*

Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>353,118</u>	<u>13,900</u>
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	<u>—</u>	<u>85,915</u>

38. RETIREMENT BENEFITS SCHEME

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

39. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

40. POST BALANCE SHEET EVENTS

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

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

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

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

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

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

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

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

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

DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

FINANCIAL REVIEW

The Group recorded remarkable results in 2003. During the year, the Group sold 952.1 million kWh on grid, representing an increase of approximately 2.7 times as compared to the corresponding period last year. The increase was primarily contributed from the strong market demand in power and from the expanded capacity of Fuhuade Power Plant. Driven by the strong economic growth, the increasing demand in power was substantial. In 2003, Guangdong Province generated 178.3 billion kWh of power and imported 26.6 billion kWh from its neighbouring provinces. This represented a growth of more than 18% and 31.5% over the previous year respectively. In May 2003, Fuhuade Power Plant completed the expansion and was currently equipped with a total installed capacity of 305,000 kilowatt, an increase of 3.3 times over the previous capacity. In line with the increase in capacity, Fuhuade Power Plant achieved a consolidated turnover of HK\$559.8 million and a profit contribution of HK\$80.5 million to the Group.

The direct operating expenses also increased in line with the power generation to approximately HK\$415.5 million. The primary component of the direct operating expenses was fuel cost. During the year, the Group incurred a total fuel cost of HK\$350.6 million. The increase in unit fuel cost was mainly attributable to the soaring world oil price this year due to the uncertainties in the Middle East. To cope with this scenario, the Group had carried out various remedial measures, including the strengthening of fuel procurement and inventory control policies, and had been successful in minimizing the impact to the Group as a whole.

The finance costs were primarily attributable to the bank borrowings for the expansion of Fuhuade Power Plant. During the year, the finance costs were increased by 2.2 times over last year. The increase was in line with the additional financing borrowed during the year.

During the year, the Group disposed of its last investment property and had discontinued its business in properties investment. A loss of HK\$10,000 was incurred on discontinuing business in properties investment.

The Group recorded a net profit attributable to shareholders of HK\$57.5 million. This is a major improvement as compared to a net loss of HK\$85.7 million in last year. The encouraging performance was the result of the increase in power generating capacity and the management's effective cost control measures. Based on the weighted average of 333,610,723 shares in issue during the year, the basic earning per share was HK17.23 cents.

PROFIT GUARANTEE ON ACQUISITION OF FUHUAE POWER PLANT IN 2002

Despite a minor delay to the commencement of the commercial operation of the new generating units, Fuhuade Power Plant recorded a net profit after taxation of RMB122.9 million in 2003. Adding to the net profit after taxation of RMB15.8 million recorded in year 2002, Fuhuade Power Plant achieved a total net profit of RMB138.7 million for the two years ended 31 December 2003. The profit guarantee as provided by Sinolink Worldwide Holdings Limited to the Company in relation to the acquisition of Fuhuade Power Plant in 2002 was achieved.

BUSINESS PROSPECT

There will be an ever-increasing demand for power in response to the strong growing economy in China. Energy shortage has become a critical constraint for China's continuing economic development. As a result, the development of alternative energy sources is inevitable. To ride such wave, Enerchina will strengthen its effort to explore new investment opportunities in alternative energy fields, such as power generation, coal mining and coal based chemical processing, actively participating in the development of China energy and utility sector, so as to enhance the business strength of the Group for higher profitability and to sustain further growth.

FINANCIAL POSITION

As at 31 December 2003, total assets of the Group were HK\$1,417.8 million, representing an increase of 40.4% over that of the previous year. Total liabilities amounted to approximately HK\$756.8 million and were 3.7% over the previous year. The overall gearing ratio, which is calculated as the total borrowings over total assets of the Group, was 53.4%.

The Group had bank borrowings of approximately HK\$485.5 million. In addition, the Group had a loan from its shareholder of HK\$75 million. The bank borrowings are denominated in RMB and in US dollars, and are primarily used to finance the expansion project and the daily operation of Fuhuade Power Plant and are all borrowed at floating interest rate. The Group will make use of exchange forward contracts, when appropriate, to manage the risk of foreign exchange fluctuations. As at 31 December 2003, the Group had approximately HK\$13.9 million bank deposit pledged with the bank for the bank facilities. In addition, fixed assets amounting HK\$566.5 million was also pledged with the bank for the bank borrowings.

As at 31 December 2003, the Group had cash and cash equivalents amounted to HK\$362.7 million, which were denominated in Hong Kong dollars, RMB and US dollars.

A supplier filed an arbitration in August 2003 against Fuhuade Power Plant claiming for additional contract price in the amount of HK\$28,015,000. The arbitration is still in progress and the outcome of such cannot be ascertained. No provision for the amount claimed has been made by Group as at 31 December 2003. Save as the outstanding arbitration, the Group has no material contingent liabilities at the end of the financial year.

RIGHTS ISSUE OF SHARES AND PLACING OF SHARES

On 19 December 2002, the Board proposed a rights issue of shares in the proportion of three rights shares for every two existing shares at HK\$0.02 each. Sinolink, through its wholly owned subsidiary, acted as the underwriter of the rights issue. The total number of rights shares allotted was 5,448,368,349 shares, and the Company raised approximately HK\$106 million from the rights issue. The rights issue was completed on 6 March 2003.

Subsequent to the rights issue, the Company carried out a share reduction by consolidating every forty issued and unissued shares of the Company of HK\$0.01 each into one consolidated share of HK\$0.40 each, and by reducing the nominal value of each consolidated share from HK\$0.40 to HK\$0.01. The capital reduction was completed and be effective on 22 April 2003.

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

The credit arising from the capital reduction of approximately HK\$88.5 million was transferred to the contributed surplus account of the Company.

On 26 September 2003, the Company entered into a placing agreement with Guotai Junan Securities (Hong Kong) Limited, acting as the placing agent, to place 45,400,000 shares of the Company at a price of HK\$0.60 per placing shares. The Company raised approximately HK\$27.2 million from the placing of shares.

On 31 October 2003, the Board proposed another rights issue of shares in the proportion of nine rights shares for every five existing shares at HK\$0.40 each. Sinolink, through its wholly owned subsidiary, acted as the underwriter of the rights issue. The total number of rights shares allotted was 490,347,621 shares, and the Company raised approximately HK\$191 million from the rights issue. The rights issue was completed on 19 December 2003.

On 19 February 2004, the Board proposed an open offer of shares in the proportion of two offer shares for every existing share at HK\$0.40 each. Sinolink, through its wholly owned subsidiary, acted as the underwriter of the open offer as well. The total number of offer shares allotted was 1,525,525,936 shares, and the Company raised approximately HK\$600 million from the open offer. The open offer was completed on 19 April 2004.

The proceeds received from the rights issues and placing of shares are primarily for the expansion of Fuhuade Power Plant and further development of the Group's utility and energy business.

EMPLOYEE AND REMUNERATION POLICIES

The Group recognizes the importance of high calibre and competent staff and has a strict recruitment policy and performance appraisal scheme. Remuneration packages are largely in line with industry practice. Bonus and other merit payments are linked to the performance of the Group and of the individuals as incentive to optimize performance. In addition, share options have been granted to certain eligible directors and employees of the Group in accordance with the terms of the approved share option scheme adopted by the Group.

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

C. AUDITED FINANCIAL INFORMATION (reproduced from Enerchina's Annual Report for the year ended 31 December 2002)

Set out below is the audited consolidated income statement, consolidated balance sheet, balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, and notes to the financial statements reproduced from the audited accounts published in Enerchina's Annual Report for the year ended 31 December 2002.

Consolidated Income Statement

For the year ended 31 December 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
Turnover	4	115,245	670
Cost of sales and direct operating expenses		<u>(94,460)</u>	<u>(329)</u>
Gross profit		20,785	341
Other operating income	6	1,093	13,478
Impairment loss of investment securities		(13,300)	(47,965)
Impairment loss of investment in an option	20	(48,986)	–
Loss arising from investment properties	7	(5,167)	(4,297)
Administrative and selling expenses		(19,683)	(19,201)
Other operating expenses	8	<u>(7,559)</u>	<u>(112)</u>
Loss from operations	9	(72,817)	(57,756)
Finance costs	10	(5,666)	(1,710)
Impairment loss of associates		–	(41,555)
Gain on deemed disposal of subsidiaries		–	1,817
Loss on disposal of subsidiaries		(2,135)	–
Amortisation of premium on acquisition of associates		(3,655)	(6,662)
Share of results of associates		<u>2,611</u>	<u>(34,433)</u>
Loss before taxation		(81,662)	(140,299)
Taxation	13	<u>(111)</u>	<u>(2,118)</u>
Loss before minority interests		(81,773)	(142,417)
Minority interests		<u>(3,924)</u>	<u>527</u>
Net loss for the year	14	<u><u>(85,697)</u></u>	<u><u>(141,890)</u></u>
Loss per share – Basic	15	<u><u>(2.36) cents</u></u>	<u><u>(3.90) cents</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

Consolidated Balance Sheet

At 31 December 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
Non-current assets			
Investment properties	16	670	28,190
Property, plant and equipment	17	568,881	837
Goodwill	19	141,174	–
Investment in an option	20	–	48,986
Interests in associates	21	563	119,142
Investments in securities	22	84,674	21,350
		<u>795,962</u>	<u>218,505</u>
Current assets			
Inventories	23	23,942	–
Debtors, deposits and prepayments	24	97,038	2,341
Loan to a former associate	25	–	5,237
Amount due from an associate	26	–	5,265
Dividend receivable		3,475	3,475
Pledged bank deposits	36	4,091	7,840
Bank balances and cash		85,236	158,896
		<u>213,782</u>	<u>183,054</u>
Current liabilities			
Creditors and accrued charges	24	98,091	16,224
Taxation payable		483	–
Amount due to an associate	26	5,520	764
Amount due to a shareholder	26	4,286	–
Loan from minority shareholders of subsidiaries	26	28,054	753
Secured bank borrowings – due within one year	27	–	1,426
		<u>136,434</u>	<u>19,167</u>
Net current assets		<u>77,348</u>	<u>163,887</u>
		<u>873,310</u>	<u>382,392</u>
Capital and reserves			
Share capital	29	36,322	363,225
Reserves		243,741	2,553
		<u>280,063</u>	<u>365,778</u>
Minority interests		<u>35,162</u>	–
Non-current liabilities			
Secured bank borrowings – due after one year	27	361,085	16,614
Loan from a shareholder	28	197,000	–
		<u>558,085</u>	<u>16,614</u>
		<u>873,310</u>	<u>382,392</u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

Balance Sheet

At 31 December 2002

	<i>NOTES</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>17</i>	73	233
Interests in subsidiaries	<i>18</i>	443,116	261,608
		<u>443,189</u>	<u>261,841</u>
Current assets			
Debtors, deposits and prepayments		4,051	1,131
Loan to a former associate	<i>25</i>	–	5,237
Amount due from an associate	<i>26</i>	–	5,032
Bank balances and cash		20,229	107,671
		<u>24,280</u>	<u>119,071</u>
Current liabilities			
Creditors and accrued charges		1,287	1,502
Amounts due to subsidiaries		–	15,347
Amount due to an associate	<i>26</i>	5,520	753
Amount due to a shareholder	<i>26</i>	3,886	–
		<u>10,693</u>	<u>17,602</u>
Net current assets		<u>13,587</u>	<u>101,469</u>
		<u>456,776</u>	<u>363,310</u>
Capital and reserves			
Share capital	<i>29</i>	36,322	363,225
Reserves	<i>31</i>	223,454	85
		259,776	363,310
Non-current liability			
Loan from a shareholder	<i>28</i>	197,000	–
		<u>456,776</u>	<u>363,310</u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	Share capital <i>HK\$'000</i> <i>(note 29)</i>	Share premium <i>HK\$'000</i> <i>(note 31)</i>	Translation reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i> <i>(note 31)</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2001	363,430	388,287	(8,915)	–	(243,650)	499,152
Exchange difference arising on translation of overseas operations and net loss not recognised in the income statement	–	–	(2,230)	–	–	(2,230)
Impairment loss relating to an associate disposed of subsequent to the year end date	–	–	11,163	–	–	11,163
Net gain not recognised in the income statement	–	–	8,933	–	–	8,933
Premium on repurchase of shares	–	(212)	–	–	–	(212)
Share repurchased and cancelled	(205)	–	–	–	–	(205)
Net loss for the year	–	–	–	–	(141,890)	(141,890)
Balance at 1 January 2002	363,225	388,075	18	–	(385,540)	365,778
Exchange difference arising on translation of overseas operations and net loss not recognised in the income statement	–	–	(443)	–	–	(443)
Capital reduction	(326,903)	–	–	326,903	–	–
Released upon disposal of subsidiaries	–	–	18	–	–	18
Reclassified an associate to investments in securities	–	–	407	–	–	407
Net loss for the year	–	–	–	–	(85,697)	(85,697)
Balance at 31 December 2002	<u>36,322</u>	<u>388,075</u>	<u>–</u>	<u>326,903</u>	<u>(471,237)</u>	<u>280,063</u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

Consolidated Cash Flow Statement

For the year ended 31 December 2002

	NOTES	2002 HK\$'000	2001 HK\$'000
OPERATING ACTIVITIES			
Loss before taxation		(81,662)	(140,299)
Adjustments for:			
Share of results of associates		(2,611)	34,433
Amortisation of goodwill		7,454	112
Amortisation of premium on acquisition of associates		3,655	6,662
Gain on deemed disposal of subsidiaries		–	(1,817)
Gain on disposal of other investments		–	(6,771)
Loss (gain) on disposal of investment properties		5,137	(1,813)
Deficit arising on revaluation of investment properties		30	6,110
Depreciation		11,577	430
Impairment loss of investment securities		13,300	47,965
Impairment loss of associates		–	41,555
Impairment loss of investment in an option		48,986	–
Loss on disposal of subsidiaries		2,135	–
Interest expense		5,666	1,710
Interest income		(843)	(4,030)
Operating cash flows before movements in working capital		12,824	(15,753)
Increase in inventories		(8,869)	–
Increase in debtors, deposits and prepayments		(7,573)	(22)
Increase in creditors and accrued charges		68,204	3,266
NET CASH FROM (USED IN) OPERATING ACTIVITIES		64,586	(12,509)
INVESTING ACTIVITIES			
Interest received		2,069	3,829
Dividend received from an associate		–	3,467
Purchase of investment in securities		(436)	(15,269)
Proceeds from disposal of investment in securities		–	29,762
Loan repayment from (advance to) a former associate		5,000	(5,000)
Repayment of amount due from an associate		5,265	2,212
Purchase of property, plant and equipment		(285,900)	(1,188)
Purchase of an option		–	(7,000)
Disposal of subsidiaries (net of cash and cash equivalents)	34	26,133	(31,856)
Refund of deposit for investment		–	50,000
Purchase of subsidiaries (net of cash and cash equivalents acquired)	33	(79,921)	(7,114)
Decrease (increase) in pledged bank deposits		3,749	(7,840)
Proceeds from disposal of investment properties		22,353	30,113
Deposit received for sale of a company		–	13,531

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

	<i>NOTES</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
NET CASH (USED IN) FROM INVESTING ACTIVITIES		<u>(301,688)</u>	<u>57,647</u>
FINANCING ACTIVITIES			
Interest paid on banks and other borrowings		(14,501)	(1,709)
Interest on obligations under a hire purchase contract		–	(1)
Capital contribution from minority shareholders of subsidiaries		–	15,604
Repayment of bank loans		(134,729)	(14,335)
Repurchase of shares		–	(417)
Repayment of obligations under a hire purchase contract		–	(10)
New bank loans raised		303,630	–
Advance from a shareholder		4,286	–
Advance from an associate		<u>4,756</u>	<u>–</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES		<u>163,442</u>	<u>(868)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(73,660)	44,270
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>158,896</u>	<u>114,626</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
– Bank balances and cash		<u><u>85,236</u></u>	<u><u>158,896</u></u>

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2002

1. General

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

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in note 43 to the financial statements.

2. Adoption of New and Revised Statements of Standard Accounting Practice

In the current year, the Company has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP”s) issued by the Hong Kong Society of Accountants. The adoption of these new and revised SSAPs has led to a number of changes in the Group’s accounting policies which are set out in note 3. In addition, the adoption of these SSAPs has resulted in the change in the format of the consolidated cash flow statement and the inclusion of a statement of changes in equity, but has had no material effect on the results for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

3. Significant Accounting Policies

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

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

Goodwill

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

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

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

Investments in subsidiaries

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

Investments in associates

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

Revenue recognition

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

Rental income, including rentals invoiced in advance from properties under operating leases, are recognised on a straight-line basis over the relevant lease term.

Disposals of properties are recognised on the execution of a legally binding and irrecoverable sales agreement.

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

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

Property, plant and equipment

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

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

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

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

Construction in progress

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

Investment in an option

Investment in an option is stated at cost less impairment loss.

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, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on professional valuation at the balance sheet date. Any surplus or deficit arising on revaluation of the investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to the property disposed of is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease, including the renewal period, is 20 years or less.

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

The charge for taxation is based on the results for the period after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

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

Foreign currencies

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

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items, were translated at the rates ruling on the balance sheet date in prior year, 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 are charged as an expense as they fall due.

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

4. Turnover

2002
HK\$'000

2001
HK\$'000

Turnover of the Group is analysed as follows:

Electricity supplies	114,792	–
Property leasing	453	670
	<u>115,245</u>	<u>670</u>

5. Business and Geographical Segments

Business segments

For management purposes, the Group is currently organised into three operating divisions – electricity supplies, property leasing and investment holding. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented as below.

Year ended 31 December 2002:

	Electricity supplies HK\$'000	Property leasing HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
TURNOVER	<u>114,792</u>	<u>453</u>	<u>–</u>	<u>115,245</u>
RESULT				
Segment result	<u>14,294</u>	<u>(4,895)</u>	<u>(75,383)</u>	(65,984)
Finance cost				(5,666)
Interest income				843
Share of results of associates				2,611
Unallocated corporate expenses				<u>(13,466)</u>
Loss before taxation				(81,662)
Taxation				<u>(111)</u>
Loss after taxation				<u>(81,773)</u>

Year ended 31 December 2001:

	Electricity supplies HK\$'000	Property leasing HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
TURNOVER	<u>–</u>	<u>670</u>	<u>–</u>	<u>670</u>
RESULT				
Segment result	<u>–</u>	<u>(5,396)</u>	<u>(47,550)</u>	(52,946)
Finance cost				(1,710)
Interest income				4,030
Impairment loss of associates				(41,555)
Share of results of associates				(34,433)
Unallocated corporate expenses				<u>(13,685)</u>
Loss before taxation				(140,299)
Taxation				<u>(2,118)</u>
Loss after taxation				<u>(142,417)</u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

Balance sheet

	Electricity supplies <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
At 31 December 2002:				
ASSETS				
Segment assets	670,609	672	299,362	970,643
Investment in associates				563
Unallocated corporate assets				38,538
Consolidated total assets				<u>1,009,744</u>
LIABILITIES				
Segment liabilities	(484,678)	(45)	(197,000)	(681,723)
Unallocated corporate liabilities				(12,796)
Consolidated total liabilities				<u>(694,519)</u>
OTHER INFORMATION				
Capital additions	443,363			443,363
Depreciation and amortisation	11,233		11,453	22,686
Impairment loss of investment securities			13,300	13,300
				<u>479,349</u>
				<u>315,124</u>
At 31 December 2001:				
ASSETS				
Segment assets	-	28,190	85,150	113,340
Investment in associates				119,142
Unallocated corporate assets				169,077
Consolidated total assets				<u>401,559</u>
LIABILITIES				
Segment liabilities	-	(18,040)	(764)	(18,804)
Unallocated corporate liabilities				(16,977)
Consolidated total liabilities				<u>(35,781)</u>
OTHER INFORMATION				
Capital additions			1,188	1,188
Depreciation and amortisation			7,204	7,204
Impairment loss of investment securities			47,965	47,965
Impairment loss of associates				41,555
				<u>97,912</u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

Geographical segments

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

	Turnover by geographical market	
	2002 HK\$'000	2001 HK\$'000
The People's Republic of China ("PRC")	114,792	–
Hong Kong	453	670
	<u>115,245</u>	<u>670</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	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
PRC	754,360	159,461	443,363	1,162
Hong Kong	255,384	215,036	–	26
Korea	–	27,062	–	–
	<u>1,009,744</u>	<u>401,559</u>	<u>443,363</u>	<u>1,188</u>

6. Other Operating Income

	2002 HK\$'000	2001 HK\$'000
Other operating income includes the following income:		
Interest income on bank deposit	751	2,624
Other interest income	92	1,406
Exchange gain	–	88
Gain on disposal of other investments	–	6,771
	<u>–</u>	<u>6,771</u>

7. Loss Arising from Investment Properties

	2002 HK\$'000	2001 HK\$'000
Deficit arising on revaluation	30	6,110
Loss (gain) on disposal of investment properties and investment properties holding company	5,137	(1,813)
	<u>5,167</u>	<u>4,297</u>

8. Other Operating Expenses

	2002 HK\$'000	2001 HK\$'000
Other operating expenses comprise:		
Amortisation of goodwill	7,454	112
Severance payment	105	–
	<u>7,559</u>	<u>112</u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

9. Loss from Operations

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Auditors' remuneration	823	400
Depreciation and amortisation:		
Owned assets	11,577	418
Asset held under a hire purchase contract	–	12
Minimum lease payment under operating lease in respect of rented premises	1,589	1,325
Staff costs:		
Retirement benefits scheme contributions	201	348
Staff costs (including Directors' remuneration)	9,113	9,498
	<hr/>	<hr/>
Total staff costs	9,314	9,846
Cost of inventories recognised as expense	77,803	–
	<hr/> <hr/>	<hr/> <hr/>
and after crediting:		
Operating lease rental income in respect of investment properties, net of outgoings of HK\$128,000 (2001: HK\$102,000)	325	568
	<hr/> <hr/>	<hr/> <hr/>

10. Finance Costs

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on borrowings wholly repayable within five years:		
Bank borrowings	10,312	–
Hire purchase charges	–	1
Loan from a shareholder	3,886	–
	<hr/>	<hr/>
	14,198	1
Interest on bank borrowings not wholly repayable within five years	303	1,709
	<hr/>	<hr/>
Total borrowing costs	14,501	1,710
Less: Amounts capitalised	8,835	–
	<hr/>	<hr/>
	5,666	1,710
	<hr/> <hr/>	<hr/> <hr/>

Borrowing costs capitalised during the year arose on borrowing are calculated by applying a capitalisation rate of 2.13% to expenditure on qualifying assets.

11. Directors' Remuneration

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Directors' fees:		
Executive	–	–
Independent non-executive	320	187
	<hr/>	<hr/>
	320	187
Other emoluments paid to executive directors:		
Salaries and other benefits	2,629	4,560
Contractual payments for loss of office of former directors	1,080	–
Retirement benefits scheme contributions	128	253
	<hr/>	<hr/>
	4,157	5,000
	<hr/> <hr/>	<hr/> <hr/>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

Emoluments of the directors were within the following bands:

	2002	2001
	Number of directors	Number of directors
HK\$ nil to HK\$1,000,000	11	5
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$2,500,001 to HK\$3,000,000	—	1
	<u> </u>	<u> </u>

12. Employees' Emoluments

The six individuals with the highest emoluments in the Group included four executive directors (2001: three executive directors), whose emoluments are included in the amounts disclosed in note 11. The emoluments of the remaining two individuals (2001: three individuals) for the year ended 31 December 2002 are as follows:

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	815	1,743
Retirement benefits scheme contributions	37	55
	<u> </u>	<u> </u>
	<u>852</u>	<u>1,798</u>

Their emoluments are within the following band:

	2002	2001
	Number of employees	Number of employees
HK\$ nil to HK\$1,000,000	<u> </u>	<u> </u>
	2	3

13. Taxation

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

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

Details of potential deferred taxation are set out in note 32.

14. Net Loss for the Year

Of the Group's net loss for the year of approximately HK\$85,697,000 (2001: HK\$141,890,000), a loss of approximately HK\$103,534,000 (2001: HK\$138,772,000) has been dealt with in the financial statements of the Company.

15. Loss per Share

The calculation of the basic loss per share is based on the net loss for the year of HK\$85,697,000 (2001: HK\$141,890,000) and on the weighted average number of 3,632,245,567 (2001: 3,632,336,252) ordinary shares in issue during the year.

No diluted loss per share has been calculated for the year as the exercise of the share options for the year ended 31 December 2002 and 31 December 2001, would result in a decrease in the loss per share.

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

16. Investment Properties

THE GROUP
HK\$'000

AT VALUATION	
At 1 January 2002	28,190
Disposals	(27,490)
Deficit on revaluation	(30)
	670
At 31 December 2002	670

At 31 December 2002, the Group's investment properties were revalued on an open market value basis by Messrs. DTZ Debenham Tie Leung, a firm of independent valuers, at HK\$670,000. The deficit arising on valuation of HK\$30,000 has been charged to the income statement.

The investment properties are vacant at the balance sheet date. In the prior year, investment properties with a carrying value of HK\$20,620,000 were rented out under operating leases.

The Group's investment properties are all situated in Hong Kong. The investment properties are held under the following lease terms:

	2002 HK\$'000	2001 HK\$'000
Long leases	–	23,480
Medium-term leases	670	4,710
	670	28,190
	670	28,190

17. 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 2002	–	478	955	–	–	–	1,433
Additions	–	–	25	–	1,286	293,424	294,735
Acquired on acquisition of subsidiaries	88,729	–	165	75,059	532	120,401	284,886
Written off	–	–	(15)	–	–	–	(15)
At 31 December 2002	88,729	478	1,130	75,059	1,818	413,825	581,039
DEPRECIATION							
At 1 January 2002	–	245	351	–	–	–	596
Provided for the year	2,541	160	300	8,204	372	–	11,577
Eliminated on written off	–	–	(15)	–	–	–	(15)
At 31 December 2002	2,541	405	636	8,204	372	–	12,158
NET BOOK VALUES							
At 31 December 2002	86,188	73	494	66,855	1,446	413,825	568,881
At 31 December 2001	–	233	604	–	–	–	837

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

	Leasehold improvements <i>HK\$'000</i>
THE COMPANY	
COST	
At 1 January 2002 and 31 December 2002	478
DEPRECIATION	
At 1 January 2002	245
Provided for the year	160
At 31 December 2002	405
NET BOOK VALUES	
At 31 December 2002	73
At 31 December 2001	233

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\$8,835,000.

18. Interests in Subsidiaries

	THE COMPANY	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	435,400	212,902
Less: Impairment losses recognised	(161,398)	(129,336)
	274,002	83,566
Amounts due from subsidiaries	586,488	559,649
Allowance for amounts due from subsidiaries	(417,374)	(381,607)
	169,114	178,042
	443,116	261,608

Details of the principal subsidiaries of the Company as at 31 December 2002 are set out in note 43.

The impairment losses are recognised for those subsidiaries which were inactive or ceased operations.

19. Goodwill

	THE GROUP <i>HK\$'000</i>
COST	
At 1 January 2001	3,371
Decrease on reclassification of a subsidiary to an associate	(3,371)
	–
At 1 January 2002	–
Arising on acquisition during the year	148,628
	148,628
At 31 December 2002	148,628
AMORTISATION	
At 1 January 2001	169
Provided for the year	112
Decrease on reclassification of a subsidiary to an associate	(281)
	–
At 1 January 2002	–
Provided for the year	7,454
	7,454
At 31 December 2002	7,454
NET BOOK VALUES	
At 31 December 2002	141,174
At 31 December 2001	–

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

20. Investment in an Option

In April 2001, Deco Investment Limited, a wholly owned subsidiary of the Company, acquired the entire issued share capital of Citystar Venture Limited (“Citystar”) at a consideration of HK\$42,000,000. Citystar holds the entire issued capital of Beijing Starhood Digital Technology Co., Ltd. The only major asset of Citystar and its subsidiary (“Citystar Group”) is the right to acquire an option (“Option”) in the PRC for HK\$7,000,000 which enables the option holder to purchase a 49% equity interest in a company which is a digital network provider and data center operator in Beijing. As the only major asset of Citystar Group is the Option held, the total consideration paid of HK\$49,000,000 in connection with the acquisition of the Option is classified as “Investment in an option” in the balance sheet.

Due to the recession of the e-commerce industry and the change in the core business of the Group, the management reviewed the recoverable amount of the investment in this option and fully write it off.

21. Interests in Associates

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Share of net assets	563	85,335
Premium on acquisition of associates	–	33,807
	563	119,142
	563	119,142

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

The movement of the premium on acquisition of associates are as follows:

	<i>HK\$'000</i>
At 1 January 2001	60,897
Increase on reclassification of a subsidiary	3,090
Amortisation during the year	(6,662)
Provision for impairment loss of associates	(23,518)
	<hr/>
At 1 January 2002	33,807
Decrease on disposal of associates	(4,668)
Amortisation during the year	(3,655)
Reclassified to investments in securities	(25,484)
	<hr/>
At 31 December 2002	<u><u>–</u></u>

The premium on acquisition of associates is amortised over a period of 10 years.

In the opinion of the directors, the group no longer has significant influence over Xin Hua Control Engineering Company Limited (“Xin Hua”), a sino-foreign equity joint venture established in PRC. Accordingly, the carrying value of Xin Hua is reclassified to investments in securities.

22. Investments in Securities

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment securities, carried at cost less impairment:		
Unlisted shares	83,188	20,300
Club debentures	1,486	1,050
	<hr/>	<hr/>
	84,674	21,350
	<hr/>	<hr/>
Carrying amount analysed for reporting purposes as:		
Non-current	84,674	21,350
	<u><u>84,674</u></u>	<u><u>21,350</u></u>

During the year, the Group reviewed the carrying amounts of the investments in unlisted securities and identified that the estimated discounted net future cash flows from investees (the “Recoverable Amounts”) are less than the carrying amounts. Accordingly, the carrying amounts of investees are reduced to their respective Recoverable Amounts which are estimated using market borrowing rates.

23. Inventories

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials and consumables	23,942	–
	<u><u>23,942</u></u>	<u><u>–</u></u>

The inventories are stated at cost.

24. Debtors and Creditors

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

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade debtors	19,160	–
Other receivables, deposits and prepayments	2,878	2,341
Amount due from a shareholder	75,000	–
	<hr/>	<hr/>
	97,038	2,341
	<u><u>97,038</u></u>	<u><u>2,341</u></u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

The following is an aged analysis of the trade debtors at 31 December 2002:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0 – 60 days	<u>19,160</u>	<u>–</u>

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

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

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Trade creditors	19,005	–
Other creditors and accrued charges	<u>79,086</u>	<u>16,224</u>
	<u>98,091</u>	<u>16,224</u>

The following is an aged analysis of the trade creditors at 31 December 2002:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0 – 60 days	<u>19,005</u>	<u>–</u>

The Group did not have any trade debtors and creditors as at 31 December 2001 as the Group was mainly engaged in the business of investment holding and property holding during that year.

25. Loan to a Former Associate

The amount is secured by certain shares of the Company held by another shareholder of the associate and is, interest bearing at Hong Kong prime interest rate. The amount was originally repayable in 27 March 2002 and the Company has agreed with the associate to extend the repayment term so that the loan was repayable on demand. The loan was assigned to a third party upon the disposal of the associate during the year.

26. Amount Due from/to an Associate, Amount Due to a Shareholder and Loan from Minority Shareholders of Subsidiaries

The Group and The Company

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

27. Secured Bank Borrowings

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Bank borrowings comprise the following:		
Bank loans	<u>361,085</u>	<u>18,040</u>
The bank borrowings are repayable as follows:		
Within one year	–	1,426
More than one year, but not exceeding two years	37,418	1,481
More than two years, but not exceeding five years	323,667	4,640
More than five years	<u>–</u>	<u>10,493</u>
	361,085	18,040
Less: Amount due within one year shown under current liabilities	<u>–</u>	<u>(1,426)</u>
	<u>361,085</u>	<u>16,614</u>

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

During the year, the Group obtained new bank loans of HK\$187,091,000. The loans bear interest at the rate announced by the People's Bank of China for a five year Renminbi loan plus 3% and are repayable by instalments over a period of five years. The proceeds were used to finance the expansion of the power plant in the PRC.

Included above is an amount of HK\$173,994,000 in respect of bank loans which were advanced in November 2001 to Fuhuade. The amount was originally due for repayment in November 2002. Subsequent to the balance sheet date, the bank has agreed to extend the term so that the amount is due for repayment in March 2006. Accordingly, the amount is classified as non-current.

The bank borrowings are secured by the corporate guarantee as detailed in note 41(b).

In the prior year, the bank borrowings were secured by the pledge of assets as detailed in note 36.

28. Loan from a Shareholder

The Group and the Company

The amount is secured by share charges given by the Company and Sinolink Industrial as detailed in note 41(a).

29. Share Capital

	Number of shares		Share capital	
	2002	2001	2002	2001
			HK\$'000	HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning of year	6,000,000,000	6,000,000,000	600,000	600,000
Capital reduction (<i>note a</i>)	–	–	(540,000)	–
Increase of authorised share capital (<i>note b</i>)	24,000,000,000	–	240,000	–
At end of year	<u>30,000,000,000</u>	<u>6,000,000,000</u>	<u>300,000</u>	<u>600,000</u>
Issued and fully paid:				
At beginning of year	3,632,245,567	3,634,295,567	363,225	363,430
Capital reduction (<i>note a</i>)	–	–	(326,903)	–
Shares repurchased and cancelled (<i>note c</i>)	–	(2,050,000)	–	(205)
At end of year	<u>3,632,245,567</u>	<u>3,632,245,567</u>	<u>36,322</u>	<u>363,225</u>

Notes:

- (a) Pursuant to a special resolution passed at a special general meeting of the Company held on 8 November 2002, the share capital of the Company was changed as follows:
- The authorised share capital of the Company was reduced from HK\$600,000,000 ordinary shares of HK\$0.10 each to HK\$60,000,000 divided into 6,000,000,000 ordinary shares of HK\$0.01 each (the “New Shares”) and the reduction was effected by (i) reducing the issued share capital from HK\$363,225,000 to HK\$36,322,000 by cancelling paid up share capital to the extent of HK\$0.09 on the nominal value of HK\$0.10 on the nominal value of HK\$0.10 of each share of the Company in issue; and (ii) by reducing the nominal value of the issued and unissued ordinary shares of the Company from HK\$0.10 to HK\$0.01 per ordinary share; and
 - The credit of an amount of HK\$326,903,000 arising from the reduction of issued share capital of the Company being transferred to the contributed surplus.
- (b) Pursuant to an ordinary resolution passed at the special general meeting held on 8 November 2002, the authorised share capital of the Company was increased from HK\$60,000,000 to HK\$300,000,000 by the creation of an additional 24,000,000,000 ordinary shares of HK\$0.01 each.

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

- (c) During the year ended 31 December 2001, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
January 2001	2,050,000	0.209	0.194	417,380

The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

30. 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 14 May 2002, the 1993 Scheme was terminated and a new share option scheme of the Company (the "2002 Scheme") has been approved which will remain in force for a period of ten years. The board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the 2002 Scheme 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.

No options were granted under both schemes 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 type	Outstanding at 1.1.2002	Granted during year	Lapsed during year (Note)	Outstanding at 31.12.2002
1993 Scheme	<u>208,000,000</u>	<u>–</u>	<u>(156,320,000)</u>	<u>51,680,000</u>
Option type	Outstanding at 1.1.2001	Granted during year	Lapsed during year	Outstanding at 31.12.2001
1993 Scheme	<u>210,000,000</u>	<u>7,000,000</u>	<u>(9,000,000)</u>	<u>208,000,000</u>

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

	Outstanding at 1 January	Lapsed during year <i>(Note)</i>	Outstanding at 31 December
2002	<u>200,000,000</u>	<u>(150,000,000)</u>	<u>50,000,000</u>
2001	<u>200,000,000</u>	<u>–</u>	<u>200,000,000</u>

Note: Lapsed arising on the resignation of employees (including directors) during the year.

Details of specific categories of options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise price <i>HK\$</i>	Number of options	
					2002	2001
1993 Scheme	10.03.2000	120 months	10.03.2000 – 09.03.2010	0.520	–	100,000,000
	24.05.2000	120 months	24.05.2000 – 23.05.2010	0.290	50,000,000	50,000,000
	26.06.2000	120 months	26.06.2000 – 25.06.2010	0.390	1,000,000	1,000,000
	04.09.2000	120 months	04.09.2000 – 03.09.2010	0.378	–	50,000,000
	05.02.2001	120 months	05.02.2001 – 04.02.2011	0.200	–	5,000,000
	26.03.2001	120 months	26.03.2001 – 25.03.2011	0.210	680,000	2,000,000
					<u>51,680,000</u>	<u>208,000,000</u>

No consideration was received during the year as no option is granted under both schemes.

No charge is recognised in the income statement as no option is granted during the year.

31. Reserves

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1 January 2001	388,287	43,852	(293,070)	139,069
Premium on repurchase of shares	(212)	–	–	(212)
Net loss for the year	–	–	(138,772)	(138,772)
	<u>–</u>	<u>–</u>	<u>(138,772)</u>	<u>(138,772)</u>
At 1 January 2002	388,075	43,852	(431,842)	85
Capital reduction	–	326,903	–	326,903
Net loss for the year	–	–	(103,534)	(103,534)
	<u>–</u>	<u>–</u>	<u>(103,534)</u>	<u>(103,534)</u>
At 31 December 2002	<u>338,075</u>	<u>370,755</u>	<u>(535,376)</u>	<u>223,454</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 during the year.

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

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

The accumulated losses of the Group include approximately HK\$25,065,000 (2001: HK\$41,373,000) attributable to the associates.

The Company did not have any distributable reserves as at 31 December 2002 and 2001.

32. Potential Deferred Taxation

The major components of the potential deferred taxation asset (liability) not recognised at the balance sheet date are as follows:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect of timing differences attributable to:				
Tax losses carried forward	16,725	16,312	1,758	1,758
Difference between depreciation allowance and accounting depreciation	(59)	22	–	–
	<u>16,666</u>	<u>16,334</u>	<u>1,758</u>	<u>1,758</u>

The potential deferred taxation asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

Deferred taxation has not been provided on the revaluation difference of investment properties as profits arising from disposal of these assets will not be subject to taxation and accordingly the revaluation difference does not constitute a timing difference for taxation purpose.

The amount of unrecognised deferred tax credit (charge) for the year is as follows:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect of timing differences attributable to:				
Tax losses arising	413	1,497	–	–
Difference between tax depreciation allowance and accounting depreciation	(81)	131	–	–
	<u>332</u>	<u>1,628</u>	<u>–</u>	<u>–</u>

33. Acquisition of Subsidiaries

During the year, the Group acquired entire issued share capital of Sinolink Industrial Limited (“Sinolink Industrial”) for consideration of HK\$222,498,000. Sinolink Industrial is interested in 70% of the registered capital of Shenzhen Fuhuade Electric Co., Ltd. (“Fuhuade”), a sino-foreign equity joint venture company established in PRC, through a wholly owned subsidiary, Sinolink Electric Power Company Limited (“Sinolink Electric Power”). This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$223,628,000. In addition, a profit guarantee is provided by Sinolink as detailed in note 41 (a).

	2002 HK\$'000	2001 HK\$'000
Net assets (liabilities) acquired:		
Property, plant and equipment	284,886	–
Interests in associates	564	–
Inventories	15,073	–
Debtors, deposits and prepayments	13,131	–
Bank balances and cash	83,479	3,017
Creditors and accrued charges	(27,195)	(3,003)
Loan from a minority shareholder of a subsidiary	(27,301)	–
Shareholders' loan	(137,902)	–
Taxation payables	(483)	–
Bank borrowings	(174,144)	–
Minority interests	(31,238)	–
	<u>(1,130)</u>	<u>14</u>
Investment in an option (<i>see note 20</i>)	–	41,986
Goodwill	148,628	–
	<u>147,498</u>	<u>42,000</u>
Total consideration	<u>147,498</u>	<u>42,000</u>
Satisfied by:		
Cash paid	163,400	42,000
Deferred consideration (shareholder loan)	197,000	–
Debt assignment	(137,902)	–
Receivable in respect of adjustment to purchase consideration	(75,000)	–
	<u>147,498</u>	<u>42,000</u>
Net cash outflow arising on acquisition:		
Cash consideration	(163,400)	(42,000)
Bank balances and cash acquired	83,479	3,017
	<u>(79,921)</u>	<u>(38,983)</u>
Less: Deposit paid in prior year	–	31,869
	<u>(79,921)</u>	<u>(7,114)</u>

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

APPENDIX II FINANCIAL INFORMATION OF THE ENERCHINA GROUP

34. Disposal of Subsidiaries

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

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Property, plant and equipment	–	18,622
Interests in associates	34,764	–
Investments in securities	7,000	–
Debtors, deposits and prepayments	18	24,417
Bank balances and cash	–	31,856
Creditors and accrued charges	(1)	(11,671)
Minority interests	–	(32,497)
	<u>41,781</u>	<u>30,727</u>
Attributable goodwill	–	3,090
	41,781	33,817
Translation reserve released	18	–
Loss on disposal	(2,135)	–
	<u>39,664</u>	<u>33,817</u>
Total consideration/reclassified to interest in associates		
Net cash inflow (outflow) arising on disposal:		
Cash consideration	39,679	–
Less: Deposit received in prior year	(13,531)	–
Less: Legal and professional fee	(15)	–
Bank balances and cash disposed of	–	(31,856)
	<u>26,133</u>	<u>(31,856)</u>

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

35. Major Non-cash Transactions

At the time of acquisition of Sinolink Industrial as referred to in note 33, other than the cash consideration of HK\$163,400,000 paid to Sinolink Worldwide Holdings Limited ("Sinolink"), amount of HK\$197,000,000 is satisfied in the form of a loan from a shareholder carrying interest at the rate of 3% per annum payable semi-annually. In addition, Sinolink assigned a shareholders' loan in an amount equivalent to approximately HK\$137,902,000 to the Company.

36. Pledge of Assets

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
To secure the general banking facilities granted to the Group:		
Investment properties	–	27,490
Bank deposits	4,091	7,840
	<u>4,091</u>	<u>35,330</u>

The shares in Sinolink Industrial and Sinolink Electric Power are pledged to Sinolink to secure a loan from Sinolink of HK\$197,000,000. The details of the shares charges are set out in note 41(a) to the financial statements.

37. Contingent Liabilities

The Group

The Group did not have any contingent liability at 31 December 2002 and 2001.

The Company

At 31 December 2002, the Company has given a corporate guarantee up to 70% of the loan amount to a bank for general banking facilities granted to a subsidiary. The banking facilities utilised by the subsidiary at 31 December 2002 were approximately HK\$187,091,000 (2001: HK\$18,040,000).

38. Operating Lease Arrangement

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented properties, which fall due as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	662	1,590
In the second to fifth year inclusive	—	662
	<u>662</u>	<u>2,252</u>

Operating lease payments represent rentals payable by the Group for its office property. The lease is negotiated for a term of two years.

At 31 December 2001, the Group had contracted with tenants for the following future minimum lease payments in respect of the investment properties:

	2001 <i>HK\$'000</i>
Within one year	978
In the second to fifth year inclusive	453
	<u>1,431</u>

The Group and the Company did not have any lease commitments at 31 December 2002.

39. Capital Commitments

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>13,900</u>	<u>—</u>
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	<u>85,915</u>	<u>—</u>

40. Retirement Benefits Scheme

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

41. Related Party and Connected Transactions

Details of transactions with related parties and connected parties for the year ended 31 December 2002 are as follows:

- (a) On 8 March 2002, the Company entered into an acquisition agreement (“Acquisition Agreement”) with Sinolink. Pursuant to the terms of Acquisition Agreement, the Company purchased the entire issued share capital of Sinolink Industrial from Sinolink (the “Acquisition”).

Sinolink Industrial is interested in 70% of the registered capital of Fuhuade, a sino-foreign equity joint venture company established in the PRC, through a wholly owned subsidiary, Sinolink Electric Power. Sinolink assigned a shareholders’ loan in an amount equivalent to approximately HK\$137.9 million which is interest free owing to Sinolink by Sinolink Industrial to the Company. The consideration of the Acquisition and the assignment of the shareholders’ loan is approximately HK\$360.4 million, of which approximately HK\$163.4 million was satisfied by cash at completion and the balance of HK\$197 million remains payable on demand and carries interest until actual payment at the rate of 3% per annum payable semi-annually. However, Sinolink undertakes that as long as Sinolink is a substantial shareholder of the Company, Sinolink will not demand the balance of HK\$197 million from the Company, which actions will detrimentally affect the financial resources and daily operations of the Company. Payment of approximately HK\$197 million and the interest accrued thereon is secured by share charges given by the Company and Sinolink Industrial respectively over the shares in Sinolink Industrial and Sinolink Electric Power respectively and an undertaking given by Sinolink Electric Power not to create any security interest over its interest in 70% of the registered capital of Fuhuade, in each case in favour of Sinolink. Interest of HK\$3,886,027 has been charged by Sinolink during the year ended 31 December 2002.

In addition, a profit guarantee is provided by Sinolink under the Acquisition Agreement that the profits after taxation of Fuhuade arising from its ordinary activities and excluding any extraordinary item (i) for the two financial years ending 31 December 2003 in aggregate is less than RMB135,000,000; or (ii) for the year ending 31 December 2003 is less than RMB110,000,000 (each being the “Relevant Guaranteed Profit”), Sinolink shall repay to the Company an amount equivalent to the shortfall between the Relevant Guaranteed Profits and the corresponding profit.

- (b) On 26 June 2002, Fuhuade entered into a loan agreement with a bank for an amount of RMB230 million. The loan is repayable for a term of six years (the “Term”). Fuhuade is a subsidiary of the Company which holds 70% of its equity interest and the remaining 30% is held by Shenzhen Sinolink Enterprises Limited (“Shenzhen Sinolink”), a subsidiary of Sinolink, a substantial shareholder of the Company.

The Company provided a guarantee of 70% of the loan, being RMB161 million. The remaining 30% is guaranteed by Shenzhen Sinolink. The guarantee is for the period of the Term plus two years thereafter.

- (c) On 6 March 2003, Fuhuade entered into a loan agreement with a bank for an amount up to US\$25 million. The loan is repayable for a term of three years (the “New Term”).

The Company provided a guarantee of 70% of the loan, amounting US\$17.5 million. The remaining 30% is guaranteed by Shenzhen Sinolink. The guarantee is for the period of the New Term plus two years thereafter.

- (d) During the year ended 31 December 2002, the Group received interest income of approximately HK\$92,000 in respect of a loan to a former associate. The loan is repaid during the year upon disposal of the former associate through the sale of a subsidiary. The interest is charged at Hong Kong prime rate.

Details of the transactions with related parties for the year ended 31 December 2001 were as follows:

- (a) On 11 December 2000, eGoChina Holdings entered into a subscription agreement with Rado International Limited (“Rado”), a wholly-owned subsidiary of the Company and Atlantic Cay whereby Rado and Atlantic Cay agreed to subscribe for 1,000,000 and 2,000,000 Preferred Shares respectively at an aggregate consideration of US\$3,000,000. The consideration was satisfied in cash. The transaction was completed in January 2001 after approval at the Special General Meeting of the Company held on 15 January 2001.
- (b) During the year 2001, the Group received interest income of approximately HK\$237,000 from an associate in respect of a loan to an associate. The interest is charged at Hong Kong prime rate.

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

42. Post Balance Sheet Events

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.

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:

- (a) 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;
- (b) 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;
- (c) The credit of HK\$88,536,000 arising from the reduction of issued capital of the Company being transferred to the contributed surplus.

43. Particulars of Principal Subsidiaries

Details of the Company’s principal subsidiaries as at 31 December 2002 are as follows:

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

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 %	
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 Co., Ltd.	PRC	Sino-foreign equity joint venture	RMB100,000,000	–	70	Electricity supplies

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.

DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

FINANCIAL REVIEW

During the year ended 31 December 2002, the Group recorded a consolidated turnover of approximately HK\$115,200,000, representing a significant increase of 170 times over that of the corresponding period last year. The increase in turnover was primarily derived from the new power generation business of the Group. In May 2002, the Group acquired Shenzhen Fuhuade Electric Power Company Limited ("Fuhuade") which operates the Dapeng Power Plant at total consideration of HK\$360,400,000. During the year under review, the power plant generated a total of 253,000 MWh on grid power generation and contributed approximately HK\$8,900,000 net profit to the Group.

The direct operating expenses also increased in line with that of turnover to approximately HK\$94,500,000. The primary operating expenses of the Group was fuel cost. During the year under review, the Group incurred a total fuel cost of approximately HK\$83,500,000. The average unit fuel cost of Dapeng Power Plant was approximately HK\$310 per MWh.

During the year under review, the Group disposed of a number of the under-performing project investments, together with further provisions for impairment losses on the remaining investment, a total loss of approximately HK\$64,400,000 had been incurred. The management believed that all the under-performing project investments had effectively been cleaned up and the losses were one-off in nature and non-recurring. Moreover, the Group disposed of four investment properties at a gross consideration of HK\$22,600,000. The total loss as incurred from the disposal of property investment and on year end revaluation was approximately HK\$5,200,000.

The Group shared approximately HK\$8,200,000 net profits from its associated companies during the year, mainly from Xinhua Control Engineering Company Limited ("Xinhua Control"). The share of profits was, however, substantially offset by the impairment loss of its other associates amounted to approximately HK\$5,600,000. Besides, the Group reclassified its joint venture in Xinhua Control to investment in securities to reflect the change in influence over the joint venture.

The consolidated net loss attributable to the shareholders was approximately HK\$85,700,000, representing an improvement of 39.6% from HK\$141,900,000 of the previous year. Based on the weighted average number of 3,632,245,567 shares in issue during the year, the basic loss per share was reduced to 2.36 cents as compared to 3.90 cents of last year.

FINANCIAL POSITION

As at 31 December 2002, total assets of the Group were approximately HK\$1,009,700,000, representing an increase of 2.5 times over that of the previous year. Total liabilities amounted to approximately HK\$729,700,000 were 20.4 times over the previous year. The increase in total assets and liabilities was primarily attributable to the acquisition of the power business during the year. The overall gearing ratio, which is calculated as the total borrowings over total assets of the Group, was 72.3%.

The Group had long-term bank borrowings of approximately HK\$361,100,000. In addition, the Group had a loan from its shareholder of HK\$197,000,000. The bank borrowings are denominated in RMB and in US dollars, and are primarily used to finance the expansion project and the daily operation of Dapeng Power Plant and are all borrowed at floating interest rate. The Group will make use of exchange forward contracts, when appropriate, to manage the risk of foreign exchange fluctuations. As at 31 December 2002, the Group had approximately HK\$4,100,000 bank deposit pledged with the bank for the bank facility.

As at 31 December 2002, the Group's cash and cash equivalents amounted to approximately HK\$89,300,000 are mostly denominated in Hong Kong dollars, RMB and US dollars.

The Group has no material contingent liabilities at the end of the financial year.

EMPLOYEE AND REMUNERATION POLICIES

During the year, the Group had carried out a series of corporate restructuring and reorganisations to streamline its operation. A total of HK\$105,000 was paid as severance payments. As at 31 December 2002, the Group had approximately 180 employees, of which approximately 99% were located in the PRC.

The Group recognizes the importance of high calibre and competent staff and has a strict recruitment policy and performance appraisal scheme. Remuneration packages are largely in line with industry practice. Bonus and other merit payments are linked to the performance of the Group and of the individuals as incentive to optimize performance. In addition, share options have been granted to certain eligible directors and employees of the Group in accordance with the terms of the approved share option scheme adopted by the Group.

The management will strive to improve employer-employee relationship in an effort to increase production, efficiency and loyalty.

MAJOR ACQUISITION OF SUBSIDIARY AND CHANGE IN SUBSTANTIAL SHAREHOLDER

On 8 March 2002, the Company entered into a sale and purchase agreement with Sinolink to acquire 100% shareholding interest in Sinolink Industrial Limited ("Sinolink Industrial") and a shareholders loan at a total consideration of HK\$360,400,000. Sinolink Industrial is interested indirectly in 70% of Fuhuade.

Concurrent with the acquisition, Silver Grant International Industries Limited, one of the substantial shareholders who was interested in 30.38% of the Company, disposed of most of its interest in the Company to Sinolink. After the disposal, Sinolink becomes the largest shareholder holding 29.99% interest in the Company.

The acquisition of Sinolink Industrial and the change of substantial shareholder were completed in May 2002.

CAPITAL REORGANISATION AND RIGHTS ISSUE OF SHARES

During the year, the Company carried out a capital reorganization by reducing its issued share capital from HK\$363,225,000 to HK\$36,322,000 in canceling HK\$0.09 each of the issued share capital. The nominal value of each issued and unissued shares was also reduced from HK\$0.10 to HK\$0.01. At the same time, the Company increased its authorised share capital from HK\$60,000,000 to HK\$300,000,000 by the creation of 24,000,000,000 new shares of HK\$0.01 each. The capital reorganisation was completed and be effective on 8 November 2002.

The credit arising from the capital reduction of approximately HK\$326,900,000 was transferred to the contributed surplus account of the Company.

On 19 December 2002, the board proposed a rights issue of shares in the proportion of three rights shares for every two existing shares at HK\$0.02 each. Sinolink, through its wholly owned subsidiary, acted as the underwriter of the rights issue. The total number of rights shares allotted was 5,525,888,349 shares, and the Company raised approximately HK\$106,000,000 from the rights issue. The rights issue was completed on 6 March 2003.

Upon completion of the rights issue, the beneficial shareholding of Sinolink in the issued share capital of the Company was increased from 29.99% to 40.44%.

In view of the large size of issued share capital after the rights issue, the Company carried out a share reduction by consolidating every forty issued and unissued shares of the Company of HK\$0.01 each into one consolidated share of HK\$0.40 each, and by reducing the nominal value of each consolidated share from HK\$0.40 to HK\$0.01. The capital reduction was completed and be effective on 22 April 2003.

The credit arising from the capital reduction of approximately HK\$88,500,000 was transferred to the contributed surplus account of the Company.

GUARANTEE TO FUHUADE

Fuhuade entered into a loan facility agreement with Bank of China, Shenzhen Branch for an amount up to RMB230,000,000 on 26 June 2002 for a period of six years. The facility carried an interest at the rate as announced by the People's Bank of China for a five-year Renminbi loan plus 3%.

On 6 March 2003, Fuhuade entered into another loan facility agreement with Bank of China, Shenzhen Branch for an amount up to US\$25,000,000 for a period of three years. The Loan carried an interest at LIBOR plus 1.25%.

The Company is a shareholder holding 70% of Fuhuade, and the remaining 30% is held by Shenzhen Sinolink Enterprises Co. Ltd. ("Shenzhen Sinolink"). Shenzhen Sinolink is a subsidiary of Sinolink. As Sinolink is also the substantial shareholder holding 29.99% of the Company, Shenzhen Sinolink is a connected person of the Company as defined in The Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). As a security for the above facilities, the Company provided several guarantees (the "Guarantees") of 70% of the facilities, being RMB161,000,000 and US\$17,500,000 respectively. The remaining 30% of the facilities was guaranteed by Shenzhen Sinolink, which was also in proportion to its percentage of interest in Fuhuade. The Guarantees were for the period of the facilities and another two years thereafter. The loan facilities were primarily for the expansion of Dapeng Power Plant and as the working capital of Fuhuade.

TO DEMONSTRATE THE EFFECT OF THE ACQUISITION AND THE OFFERS (THE “TRANSACTIONS”) ON THE ASSETS AND LIABILITIES OF THE GROUP AS IF THE TRANSACTIONS HAD BEEN COMPLETED AS AT 30 JUNE 2004

PRO FORMA ASSETS AND LIABILITIES STATEMENT

(i) Basis of preparation of the Pro Forma Assets and Liabilities Statement

The Pro Forma Assets and Liabilities Statement of the Enlarged Group has been prepared to demonstrate the effect of the Transactions on the assets and liabilities of the Group on the assumption that Enerchina will become a subsidiary of the Company following the Transactions as if the Transactions had taken place on 30 June 2004.

The Pro Forma Assets and Liabilities Statement of the Enlarged Group has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the Transactions as if the Transactions had taken place on 30 June 2004.

The Pro Forma Assets and Liabilities Statement of the Enlarged Group is based upon the unaudited consolidated balance sheet of the Group as at 30 June 2004, which has been extracted from the Interim Report of the Company for the six months ended 30 June 2004 and the unaudited consolidated balance sheet of the Enerchina Group as at 30 June 2004 as extracted from the Interim Report of Enerchina for the six months ended 30 June 2004, adjusted only to the effect to the pro forma adjustments described in the notes thereto. A narrative description of the pro forma adjustments of the Transactions that are (i) directly attributable to the Transactions; (ii) expected to have a continuing impact on the Group, and (iii) factually supportable, are summarised in the accompanying notes.

The Pro Forma Assets and Liabilities Statement of the Enlarged Group is based on a number of assumptions, estimates and uncertainties. The accompanying Pro Forma Assets and Liabilities Statement of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Transactions been completed on 30 June 2004. The Pro Forma Assets and Liabilities Statement of the Enlarged Group does not purport to predict the future financial position of the Enlarged Group.

The Pro Forma Assets and Liabilities Statement of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in the Interim Report of the Company for the six months ended 30 June 2004 and other financial information included elsewhere in this Circular.

(ii) Pro Forma Assets and Liabilities Statement of the Enlarged Group

	The Group as at 30.6.2004 HK\$'000 (unaudited)	Enerchina Group as at 30.6.2004 HK\$'000 (unaudited)	Pro forma adjustments HK\$'000	<i>Notes</i>	Pro forma balance HK\$'000
Non-current assets					
Property, plant and equipment	853,375	1,010,348	–		1,863,723
Intangible asset	9,411	–	–		9,411
Goodwill	29,543	199,402	21,227	<i>d</i>	250,172
Negative goodwill	(16,189)	–	–		(16,189)
Interest in an associate	423,154	–	(423,154)	<i>c</i>	–
Investments in securities	84,005	91,773	–		175,778
	<u>1,383,299</u>	<u>1,301,523</u>	<u>(401,927)</u>		<u>2,282,895</u>
Current assets					
Stock of properties	1,776,936	–	–		1,776,936
Inventories	33,638	119,349	–		152,987
Trade and other receivables	631,939	174,995	–		806,934
Amount due from an associate	–	46	–		46
Dividend receivable	–	3,475	–		3,475
Investments in securities	126	–	–		126
Pledged bank deposit	–	83,372	–		83,372
Bank balances and cash	1,004,274	1,090,027	(188,637)	<i>a</i>	1,905,664
	<u>3,446,913</u>	<u>1,471,264</u>	<u>(188,637)</u>		<u>4,729,540</u>
TOTAL ASSETS	<u>4,830,212</u>	<u>2,772,787</u>	<u>(590,564)</u>		<u>7,012,435</u>
Current liabilities					
Trade and other payables	267,323	144,146	–		411,469
Amount due to a shareholder	–	15,644	–		15,644
Amounts due to minority shareholders	8,665	–	–		8,665
Loan from a minority shareholder of a subsidiary	–	12,914	–		12,914
Tax liabilities	55,761	13,357	–		69,118
Borrowings – amount due within one year	732,601	407,100	409,914	<i>b</i>	1,549,615
	<u>1,064,350</u>	<u>593,161</u>	<u>409,914</u>		<u>2,067,425</u>
Non-current liabilities					
Borrowings – amount due after one year	580,015	803,742	–		1,383,757
TOTAL LIABILITIES	<u>1,644,365</u>	<u>1,396,903</u>	<u>409,914</u>		<u>3,451,182</u>
MINORITY INTERESTS	<u>975,569</u>	<u>84,445</u>	<u>290,961</u>	<i>e</i>	<u>1,350,975</u>
NET ASSETS	<u>2,210,278</u>	<u>1,291,439</u>	<u>(1,291,439)</u>		<u>2,210,278</u>

This statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group.

Notes:

- (a) The adjustment reflects the total consideration of HK\$188,637,000 paid in cash in connection with the acquisition of 298,642,000 shares in Enerchina at HK\$0.63 each on 3 December 2004 from independent third parties and the estimated professional fees of approximately HK\$493,000.
- (b) The adjustment reflects the total consideration of HK\$409,914,000 (inclusion of estimated professional fees of HK\$11,000,000) which is financed by borrowings assuming that shares held by parties other than the Group, Atlantic Cay International Limited (“Atlantic Cay”) and Warburg Pincus Ventures L.P. (“Warburg Pincus Ventures”), and the share options of Enerchina held by the holders (other than those held by certain directors of the Company and Enerchina) in connection with the offers to acquire all the issued shares of and for cancellation of all outstanding options of Enerchina, are accepted in full.
- (c) The adjustment reflects the elimination of the Group’s original 37.10% equity interest in Enerchina as at 30 June 2004 of approximately HK\$423,154,000.
- (d) The goodwill represents the difference between the cost of acquisition of Enerchina amounting to approximately HK\$1,021,705,000 and the acquired net asset value of Enerchina as at 30 June 2004 amounting to approximately HK\$1,000,478,000, calculated by reference to the interim report of Enerchina for the six months ended 30 June 2004.
- (e) The adjustment reflects the increase in the Group’s minority interests amounting to HK\$290,961,000 following the transactions and was calculated by reference to the net asset value of Enerchina as at 30 June 2004. Atlantic Cay and Warburg Pincus Ventures, shareholders of Enerchina holding 404,548,779 shares and 110,975,598 shares in Enerchina respectively, have given an unconditional and irrevocable undertaking to the Company that they will not accept the offer in connection with the acquisition of all the issued shares of Enerchina.

Remark: The above pro forma adjustments are based on the issued shares of Enerchina of 2,288,288,904 shares as at 30 June 2004 and have not taken into account of the effect of the issue of shares of Enerchina resulting from the exercise of share options of Enerchina for the period between 1 July 2004 and 24 December 2004 of 2,645,000 shares.

The following is the text of a report, prepared for the purpose of incorporating in this circular, received from the auditors of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.

德勤

31 December 2004

The Directors
Sinolink Worldwide Holdings Limited
28th Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

Dear Sirs,

We report on the pro forma assets and liabilities statement (“Pro Forma Assets and Liabilities Statement”) of Sinolink Worldwide Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) and Enerchina Holdings Limited (“Enerchina”) and its subsidiaries (the “Enerchina Group” and, together with the Group hereinafter referred to as the “Enlarged Group”) set out in Appendix III to the circular of Sinolink Worldwide Holdings Limited dated 31 December 2004 (the “Circular”) issued by the Company in connection with the acquisition of shares in Enerchina, and offers to acquire all the issued shares of and for cancellation of all outstanding options of Enerchina (other than those shares held by the Company and parties acting in concert with it) (the “Transactions”), which has been prepared by the directors of the Company, as if the Transactions had been completed as at 30 June 2004 for illustrative purpose only, to provide information about how the Transactions might have affected the relevant assets and liabilities of the Group.

RESPONSIBILITIES

It is solely the responsibility of the directors of the Company to prepare the Pro Forma Assets and Liabilities Statement in accordance with the paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the Pro Forma Assets and Liabilities Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Assets and Liabilities Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practice Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Assets and Liabilities Statement with the directors of the Company.

Our work did not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly we do not express such assurance on the Pro Forma Assets and Liabilities Statement.

The Pro Forma Assets and Liabilities Statement has been compiled in accordance with the basis set out in the first paragraph of this letter for illustrative purposes only and, because of its nature, it may not be indicative of the financial position of the Enlarged Group:

- (a) at 30 June 2004; or
- (b) at any future date.

OPINION

In our opinion:

- (a) the Pro Forma Assets and Liabilities Statement has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Pro Forma Assets and Liabilities Statement as disclosed pursuant to paragraph 29 of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in accordance with the Listing Rules for the purpose of giving information with respect to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given their opinion or advice contained in this circular:

Name	Qualification
Commerzbank	a bank incorporated in Germany, acting through its Hong Kong Branch, which is an authorised institution registered with the Hong Kong Monetary Authority licensed to carry out types 1, 4 and 6 regulated activities (as set out in schedule 5 of SFO)
Deloitte Touche Tohmatsu	Certified public accountant

As at the Latest Practicable Date, Commerzbank and Deloitte Touche Tohmatsu were neither beneficially interested in the share capital of any member of the Enlarged Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities of any member of the Enlarged Group.

As at the Latest Practicable Date, Commerzbank and Deloitte Touche Tohmatsu did not have any direct or indirect interests in any assets which had been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to the Enlarged Group since 31 December 2003, the date on which the latest published audited accounts of the Enlarged Group were made up.

As at the date of this circular, Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular for incorporation in this circular of its report and opinion made on 31 December 2004 and references to its name in the form and context for incorporation in this circular. As at the date of this circular, Commerzbank has given and has not withdrawn its written consent to the issue of this circular for incorporation in this circular of its opinion made on 31 December 2004 and references to their names in the form and context for incorporation in this circular.

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register maintained by the

Company pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules, were as follows:

(a) Long positions in the Shares

Name of Directors	Capacity	Interest in Shares		Total interest in Shares	Interest in underlying shares pursuant to share options	Aggregate interest	Approximate percentage of the Company's issued share capital
		Family interest	Corporate interest				
Chen Wei	Beneficial owner	-	-	-	6,400,000	6,400,000	0.27%
Ou Yaping	Beneficial owner and interest of controlled corporation	6,475,920	1,374,222,000	1,380,697,920 (Note 1)	-	1,380,697,920	59.17%

Note 1: Of which, 1,374,222,000 Shares are held by Asia Pacific Promotion Limited ("Asia Pacific"), a company incorporated in the British Virgin Islands, which is legally and beneficially owned by Mr. Ou Yaping.

(b) Directors' interests or short positions in shares of associated corporations

Name of Directors	Name of associated corporations	Capacity	Nature of interest	Total interest in shares long positions/ (short positions)	Interest in underlying shares pursuant to share options	Aggregate interest/ (short positions)	Approximate percentage of the issued share capital of associated corporations
Davin A. MacKenzie	Enerchina	Beneficial owner	Personal	-	2,288,000	2,288,000	0.10%
Ou Yaping	Panva Gas	Interest of controlled corporation and beneficial owner	Corporate	556,871,587 (Note 1)	3,600,000	560,471,587	59.48%
				(19,230,769) (Note 2)	-	(19,230,769)	(2.04%)
	Enerchina	Interest of controlled corporation and beneficial owner	Corporate	1,147,680,775	2,288,000	1,149,968,775 (Note 3)	50.20%
Tang Yui Man Francis	Panva Gas	Beneficial owner	Personal	5,440,000	3,960,000	9,400,000	1.00%
	Enerchina	Beneficial owner	Personal	-	22,880,000	22,880,000	1.00%
Xin Luo Lin	Enerchina	Beneficial owner	Personal	-	2,288,000	2,288,000	0.10%

Notes:

1. The 556,871,587 shares represent the aggregate of: (i) 381,298,462 shares held by Kenson, a wholly owned subsidiary of the Company. 58.89% interests of the Company are held by Asia Pacific. Mr. Ou Yaping is the sole beneficial owner of Asia Pacific. Mr. Ou Yaping is deemed under the SFO to be interested in these shares; (ii) 6,081,600 shares held by Asia Pacific directly. The entire issued share capital of Asia Pacific are legally and beneficially held by Mr. Ou Yaping; and (iii) 169,491,525 shares held by Supreme All. 100% interests of Supreme All are held by the Company, Mr. Ou Yaping is deemed under the SFO to be interested in these shares.
2. Kenson is under an obligation to transfer 19,230,769 shares to Hutchison International Limited (“Hutchison International”) upon full exchange of a HK\$62,500,000 redeemable note (the “Note”) held by Hutchison International in accordance with the terms and conditions of the Note.
3. The 849,038,775 shares in Enerchina represent the aggregate of: (i) the 571,887,966 shares held by the Company (Mr. Ou Yaping through his wholly owned company, Asia Pacific, holds approximately 58.89% of the existing issued share capital of the Company and is therefore deemed to be interested in all the shares in which the Company is interested); and (ii) the 277,150,809 shares held by Smart Orient. 100% interests of Smart Orient are held by the Company. Mr. Ou is deemed under the SFO to be interested in these shares.

(c) Directors’ right to acquire Shares*(i) Interest in options to subscribe for Shares*

Pursuant to the Company’s share option scheme, the Company has granted options to subscribe for Shares in favour of certain Directors, the details of which are as follows:

Name of Director	Date of grant	Exercise period	Exercise price HK\$	Number of Shares subject to outstanding options as at Latest Practicable Date	Approximate percentage of the Company’s issued share capital
Chen Wei	14.03.2002	01.12.2002 – 01.12.2005	0.56	6,400,000	0.27%

Note: The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(ii) Interest in options to subscribe for shares of associated corporations

Name of Directors	Name of associated corporations	Date of grant	Exercise period	Exercise price HK\$	Number of shares options held
Chen Wei	Panva Gas	04.04.2001	01.01.2003 – 03.04.2011	0.475	1,800,000
		04.04.2001	01.01.2004 – 03.04.2011	0.475	1,800,000
		13.11.2001	13.11.2002 – 13.02.2007	0.940	1,440,000
		19.11.2004	13.12.2005 – 30.03.2011	3.500	900,000
		19.11.2004	13.12.2006 – 30.03.2011	3.500	900,000
		19.11.2004	13.12.2007 – 30.03.2011	3.500	1,200,000
Davin A. MacKenzie	Enerchina	20.10.2004	20.10.2005 – 19.10.2015	0.500	2,288,000
Ou Yaping	Panva Gas	04.04.2001	01.01.2003 – 03.04.2011	0.475	1,800,000
		04.04.2001	01.01.2004 – 03.04.2011	0.475	1,800,000
	Enerchina	09.06.2004	09.06.2004 – 08.06.2014	0.440	2,288,000
Tang Yui Man Francis	Panva Gas	13.11.2001	13.11.2002 – 13.02.2007	0.940	960,000
		19.11.2004	31.12.2005 – 30.03.2011	3.500	900,000
		19.11.2004	31.12.2006 – 30.03.2011	3.500	900,000
		19.11.2004	31.12.2007 – 30.03.2011	3.500	1,200,000
	Enerchina	09.06.2004	09.06.2004 – 08.06.2014	0.440	22,880,000
Xin Luo Lin	Enerchina	09.06.2004	09.06.2004 – 08.06.2004	0.440	2,288,000

Note: The vesting period of the share options is from the date of grant until the commencement of the exercise period.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Since Asia Pacific holds approximately 58.89% of the issued share capital of the Company and is deemed to be interested in all the Enerchina Shares in which the Company is interested, Mr. Ou had deemed interest in New China which had been disposed by Enerchina on 16 December 2004, the details of which are set out on page 12 of this circular.

Save as disclosed above, as at the Latest Practicable Date, each of the Directors did not have any direct or indirect interests in any assets which had been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to the Group and the Enerchina Group since 31 December 2003, the date on which the latest published audited accounts of the Group and the Enerchina Group were made up.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following persons or corporations (not being Directors or chief executive of the Company), had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group or had any options in respect of such capital, were as follows:

Long positions and short positions in shares and underlying shares of the Company

Name of Shareholders	Capacity	Interest in shares			Total interest in shares	Approximate percentage of the Company's issued share capital
		Personal interest	Family interest	Corporate interest		
Asia Pacific	Beneficial owner	-	-	1,374,222,000 <i>(Note 1)</i>	1,374,222,000	58.89%
Value Partners Limited	Interest of controlled corporation	-	-	120,000,000	120,000,000	5.14%
Cheah Cheng Hye	Interest of controlled corporation	-	-	120,000,000	120,000,000	5.14%
Pope Asset Management, LLC	Beneficial owner	-	-	116,958,800	116,958,800	5.01%

Note 1: These shares are held by Asia Pacific, a company incorporated in the British Virgin Islands, which is legally and beneficially owned by Mr. Ou Yaping.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other person who, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group or had any options in respect of such capital.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into a service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation (other than statutory compensation).

6. COMPETING INTERESTS

So far as the Directors are aware, none of the Directors or their respective associates have any interest in any business which competes or is likely to compete or is likely to compete with the business of the Enlarged Group.

7. OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group which contract or arrangement is subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group.

8. LITIGATION

A supplier of the Enerchina Group filed an arbitration in August 2003 against Fuhuade Power Plant claiming an amount of approximately HK\$28.0 million. The arbitration is still in progress and the outcome of such cannot be ascertained.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors are aware, no member of the Enlarged Group is engaged in any litigation or arbitration proceedings of material importance and there is no litigation or claims of material importance known to the Directors to be pending or threatened by or against the Company or any member of the Enlarged Group.

9. MATERIAL CONTRACTS

The following contracts are all the material contracts (not being contracts entered into in the ordinary course of business), entered into by members of the Enlarged Group, within the two years preceding the Latest Practicable Date:

- the underwriting agreement dated 11 December 2002 entered into between Smart Orient and Enerchina in respect of the rights issue undertaken by Enerchina in accordance with the terms of the prospectus of Enerchina dated 11 February 2003;
- the subscription agreement dated 26 September 2003 entered into between the Company and Enerchina in respect of the issue of 45,400,000 new Enerchina Shares by Enerchina to the Company at the subscription price of HK\$0.60 per Enerchina Share;
- the underwriting agreement dated 27 October 2003 entered into between Smart Orient and Enerchina in respect of the rights issue undertaken by Enerchina in accordance with the terms of the prospectus of Enerchina dated 5 December 2003;
- the placing agreement dated 4 December 2003 entered into between Kenson, Panva Gas, Morgan Stanley and Merrill Lynch Far East Limited in respect of the placing of 155,200,000 existing Panva Gas shares at the placing price of HK\$4.00 per Panva Gas share. On the same date, Kenson and Panva Gas entered into a subscription agreement of the subscription of the same number of new Panvas Gas shares by Kenson at the placing price;
- the underwriting agreement dated 17 February 2004 entered into between Smart Orient and Enerchina in relation to the open offer of two new Enerchina Shares for every existing Enerchina Share held by the Enerchina Shareholders whose names appear on the register of members of Enerchina on 29 March 2004 and whose addresses are in Hong Kong;

- the sale and purchase agreement dated 27 August 2004 entered into between Panriver Investments, a wholly owned subsidiary of Panva Gas, Changchun Municipality State-owned Assets Administrative Bureau and Shenzhen Hua Fu Investment Co., Ltd. in respect of the acquisition of 48% equity interest in Changchun Gas Holdings Limited by Panriver Investments;
- the conditional purchase agreement dated 16 September 2004 entered into between Panva Gas, Merrill Lynch International and Morgan Stanley & Co. International Limited in respect of the purchase of the US\$200 million aggregate principal amount of 8.25% guaranteed senior notes due 2011 issued by Panva Gas;
- the disposal agreement dated 16 November 2004 entered into between Kenson and funds under management by Value Partners Limited in respect of the disposal of 48,000,000 existing Panva Gas shares by Kenson at the price of HK\$3.25 per Panva Gas share;
- the equity transfer agreement dated 16 December 2004 (the “Agreement”) entered into between Enerchina, Xin Hua Control, New China, and an independent third party (the “Buyer”) whereby Enerchina shall sell and the Buyer shall purchase the entire interest of Enerchina in New China and, amongst others, Enerchina shall also cancel all its existing shareholder’s loan due from New China, for a cash consideration of US\$23,500,000 (the “Disposal”). Completion of the Disposal by the Buyer is subject to the fulfilment of certain conditions including but not limited to all required consents, authorisations or approvals from all other third parties that are necessary for the closing of the transaction contemplated under the Agreement shall have been received and the Buyer shall have completed its business, accounting, tax and legal due diligence analysis and review of Xin Hua Control, and are reasonably satisfied with respect to the business, properties, operations, nature of assets, liabilities, and financial condition of Xin Hua Control. Similarly, completion of the Disposal by Enerchina is subject to the fulfilment of certain conditions including but not limited to the performance in all material respects of all the obligations of the Buyer under the Agreement that are required to be performed by it at or prior to closing;
- the asset transfer agreement dated 23 December 2004 entered into between Panriver Investments, Anshan City Public Utilities Management Bureau and Shanghai Jian Shi Hai Jia Investment Co., Ltd. in respect of the acquisition of 51% equity interest in An Shan City Gas Company for a total consideration of RMB70,490,000 by Panriver Investments.

Save as disclosed above, no material contract (not being a contract entered into in the ordinary course of business carried on by the Enlarged Group) has been entered into by any member of the Enlarged Group after the date two years preceding the issue of this circular.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at Linklaters, 10th Floor, Alexandra House, Chater Road, Hong Kong during normal business hours on any business day from the date of this circular until 18 January 2005.

- (a) the memorandum and articles of association of the Company;
- (b) the letter from the board of Directors dated 31 December 2004;
- (c) the letter from Commerzbank dated 31 December 2004;
- (d) the annual reports 2001, 2002 and 2003 and the interim report 2004 of the Company;
- (e) the annual reports 2001, 2002 and 2003 and the interim report 2004 of Enerchina;

- (f) the material contracts referred to in the paragraph headed “Material contracts” in this appendix;
- (g) the consent letters dated 31 December 2004 from Deloitte Touche Tohmatsu and Commerzbank, respectively; and
- (h) the circulars of the Company dated 11 March 2004, 30 April 2004 and 1 December 2004.

11. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

The Articles of Association of the Company provided that at any general meeting, a resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

12. GENERAL

- (a) The secretary of the Company is Mr. Lo Tai On, Certified Public Accountant.
- (b) The qualified accountant of the Company is Ms. Tiong Check Hiong, Jacqueline, Certified Public Accountant.
- (c) The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the head office and principal place of business of the Company is 28th Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.
- (d) The Company’s branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text.