Performance Review

Turnover

The Group's turnover increased by 1.4% to HK$803.3 million (1999: HK$792.1 million), including receipts of additional fuel cost surcharges of an aggregate amount of approximately HK$27.7 million (1999: nil) for the year.

Operating Profit

The Group's cost of sales increased markedly by 33.3% to HK$710.9 million (1999: HK$533.4 million), mainly attributable to the substantial increase in fuel oil cost. Despite a 39.5% decrease in administrative expenses to HK$12.4 million (1999: HK$20.5 million), profit from operations plummeted by 74.7% to HK$55.9 million (1999: HK$220.4 million). Operating profit margin decreased significantly from 27.8% to 7.0%.

Loss Attributable to Shareholders

Although finance cost decreased by 12.6% to HK$68.9 million (1999: HK$78.8 million), the Group still recorded loss attributable to shareholders of HK$19.6 million (1999: profit of HK$95.8 million). Loss per share was 2.4 Hong Kong cents (1999: earnings per share of 11.6 Hong Kong cents).

Financial Review

Liquidity and Financial Resources

The Group funded its operations principally by internal cash-flow generated from its operating activities. As at 31 December 2000, the Group's total current assets amounted to HK$239.5 million (1999: HK$376.3 million). Current assets comprised principally cash & cash equivalents of HK$151.3 million (1999: HK$235.7 million) and trade and other receivables of HK$81.3 million (1999: HK$116.6 million). The Group's total current liabilities amounted to HK$249.7 million (1999: HK$367.1 million). Current liabilities comprised principally current portions of long-term borrowings of an aggregate amount of HK$106.1 million (1999: HK$122.0 million) and trade and other payables of an aggregate amount of HK$115.2 million (1999: HK$120.9 million). The Group's short-term liquidity was tightened, resulting in net working capital deficit of HK$10.1 million (1999: surplus of HK$9.2 million). Current ratio deteriorated from the previous 1.03 to 0.96. Compared with the previous year, net cash inflow from operating activities decreased by 0.9% to HK$198.7 million (1999: HK$200.5 million). The decrease mainly reflected the substantial reduction of profit which effect was partially offset by decreased receivables. Efforts were made to improve the Group's cash conversion cycle and liquidity by shortening customer's credit period and lengthening suppliers' credit period. Accounts receivable turnover (turnover as a percentage of accounts receivable) improved from the previous 7.4 to 10.4 and the average collection period also improved from the previous 49 days to 35 days. Cash expenditure on tangible fixed assets for the year was HK$0.8 million (1999: HK$2.6 million). As at 31 December 2000, there was no authorization and commitments for significant capital expenditures.

Net Assets

The Group's net assets decreased by 1.4% to HK$1.42 billion (1999: HK$1.44 billion). The decrease mainly reflected the net loss incurred by the Group for the year. Net assets per share therefore decreased from HK$1.73 to HK$1.71. As at 31 December 2000, goodwill arising from acquisition of subsidiaries was HK$704.8 million (1999: HK$736.4 million), representing approximately 49.8% (1999: 51.3 %) of the Group's net assets.

Capital Structure and Gearing Ratio

As at 31 December 2000, the Group had no outstanding bank borrowings or commitments to bank credit facilities. The Group financed its non-current assets principally by a mix of long-term debts and shareholders' equity. Total long-term debts amounted to HK$519.2 million (1999: HK$621.6 million), representing a decrease of 16.5%. The decrease was mainly due to repayments made by the Group from internal cash flow generated from its operating activities during the year. Gearing ratio, being total long-term debts as a percentage of shareholders' fund, improved from 43.3% to 36.7%. Total Long-term debts comprised the aggregate outstanding balance of certain unsecured Renminbi loans due to Shakou JV's PRC joint-venture partner and its associate of HK$512.5 million (1999: HK$601.5 million) and the outstanding balance of an unsecured Hong Kong dollar promissory note due to a controlling shareholder of the Company of HK$6.7 million (1999: HK$20.2 million). Long-term Renminbi loans were primarily employed to re-finance Shakou JV's investment in its fixed assets, principally power generating facilities, and were repayable within ten years commencing in 1997 and 1998 at fixed interest rates of 10.08% per annum. The Hong Kong dollar promissory note bears an interest rate at the prevailing Hong Kong dollar prime lending rate and is repayable within four years commencing from April 1998.

Operation Review

Electric Power Market

During the year, electricity demand experienced strong growth mainly due to the sustained economic growth of Guangdong Province. Electricity demand growth was further fuelled by the electric power industry reforms implemented by the provincial government. These reforms comprised the improvement of electric power transmission and distribution networks, reduction of electricity tariffs to more affordable levels to end-users and electrifications of rural communities. At the same time, electric power supply was tightened as the provincial government has closed down a large number of small-scale, polluting and less efficient thermal power plants during the past few years. High fuel oil prices during the year also forced many fuel-oil power plants in the province to scale-down or suspend production in order to avoid loss-making operations. Coincidentally, Guangdong Province experienced an unexpectedly severe hot and dry summer season this year. Electricity was in serious short supply during periods of peak demand of the year.

Electricity Sales

Shakou JV's electricity sales declined from the previous 1.65 billion kilowatt-hours ("kwh") to 1.61 billion kwh. The decline was mainly the result of the production interruption caused by a routine major overhaul of Shakou JV in the first quarter of the year. In addition, high fuel oil prices had trimmed Shakou JV's operating profit and discouraged Shakou JV from pursuing an aggressive production plan. Out of the total electricity sold, approximately 177.3 million kwh (1999: 150.2 million kwh) and 67.1 million kwh (1999: nil) were purchased from 石灣發電廠有限公司 (Shiwan Power Plant Co. Ltd.) ("Shiwan JV") and 佛山市發電廠 (Foshan City Electricity Power Supply Factory) ("Foshan City Power Factory") respectively, while approximately 1.37 billion kwh (1999: 1.50 billion kwh) were Shakou JV's self-generation. Shakou JV's average plant utilization rate was approximately 52% (1999: 57%). All the electricity was sold to 佛山電力工業總公司 (Foshan City Electric Power Industry Corporation) ("Foshan Electric Power Corporation").

Fuel Oil Prices

During the year, fuel oil prices rose sharply due to international oil price fluctuations. As a result, Shakou JV experienced substantial fuel oil cost increase and earnings decline. The weighted average cost of heavy oil consumed by Shakou JV for the year increased markedly by 47.2% to Renminbi 1,764 (1999: Renminbi 1,198) per tonne. As fuel oil cost has accounted for approximately 69.8% of Shakou JV's total cost of sales (1999: 67.8%), the fuel oil cost increase has eliminated substantially Shakou JV's operating profit. The per unit composite fuel oil cost of electricity increased markedly by 44.4% to Renminbi 0.39 (1999: Renminbi 0.27). Faced with the adverse environment, Shakou JV formulated and implemented a series of mitigating measures to minimize the impact of increased fuel oil cost on its performance.

Additional Fuel Cost Surcharges

Being Foshan City's dominant electric power producer, Shakou JV has striven to maintain its electricity output to provide reliable and uninterrupted electric power supply to the locality, especially during periods of electric power short supply, despite the high fuel oil prices. After negotiations between Shakou JV and the relevant local authorities, Foshan Electric Power Corporation reimbursed Shakou JV payments of an aggregate amount of approximately HK$27.7 million (1999: nil). The amount represented additional fuel cost surcharges to partially compensate for the increased fuel oil cost incurred by Shakou JV arising from the provision of uninterrupted power supply during periods of power shortage.

Contingent Liabilities

As at 31 December 2000, the Group has contingent liabilities of approximately HK$ 43 million (1999: HK$43 million), details of which has been disclosed in the section headed "Contingent Liabilities" under "Notes on the Accounts" in this report.

Exchange Risk

The Group's revenue was substantially denominated in Renminbi while its operating costs, finance costs, debt servicing and capital expenditure were also substantially denominated in Renminbi. The Group has strategically maintained certain portions of its cash and bank balances in Hong Kong dollars and US dollars to minimize the risk of potential loss arising from foreign exchange fluctuations. Apart from such, no other financial instruments have been used for the purpose of hedging exchange rate risk during the year.

Employees and Remuneration Policies

At the end of the year, the Group employed a total of approximately 190 staff (1999: 180 staff). Remuneration packages principally comprised salary and performance bonuses based on individual merits. The Group's total staff remuneration for the year was approximately HK$14.6 million (1999: HK$9.7 million). Furthermore, Shakou JV also operated a housing subsidy scheme and a training scheme for qualified staff. During the year, total payments pursuant to the housing subsidy scheme and training scheme were approximately HK$2.0 million (1999: nil) and HK$144,000 (1999: nil) respectively. The Company in Hong Kong operated a share option scheme for its senior management staff. During the year, no such share option (1999: nil) was granted.

Challenge Ahead

The coming year will not be an easy one. While it is extremely difficult to forecast precisely the future trend, fuel oil prices are expected to hover at the prevailing high levels in the year ahead. As it is the prevailing provincial policy to make electricity more affordable to end-users at lower tariffs, it is difficult to secure tariff increase. There will be growing pressure on the Group's overall operating efficiency and cost-effectiveness. At the same time, the Group needs to monitor closely the development of fuel oil prices and implement strategic measures to minimize the adverse effects on the Group's performance. The Group is exploring the feasibility of making technological improvement on its power generating facilities to reduce the reliance on fuel oil as the major production material and improve production efficiency.