

Management Discussion and Analysis

Dear Shareholders,

PERFORMANCE REVIEW

TURNOVER

The Group's turnover decreased by 1.7% to HK\$789.3 million (2000: HK\$803.3 million). This turnover comprised (1) electricity tariff revenue of HK\$768.2 million (2000: HK\$775.6 million); and (2) additional fuel cost surcharges of HK\$21.1 million (2000: HK\$27.7 million) received from 佛山電力工業總公司 (Foshan City Electric Power Industrial Corporation) ("Foshan Electric Power Corporation") during the year.

OPERATING PROFIT

The Group's cost of sales decreased by 7.5% to HK\$656.2 million (2000: HK\$709.7 million), mainly attributable to the decrease of fuel oil cost. As a result, gross profit increased markedly by 42.2% to HK\$133.1 million (2000: HK\$93.6 million). Although administrative expenses surged by 47.6% to HK\$18.3 million (2000: HK\$12.4 million) and interest income dropped by 40.9% to HK\$2.6 million (2000: HK\$4.4 million), profit from operations achieved 51.0% growth to HK\$86.2 million (2000: HK\$57.1 million). Operating profit margin improved from the previous 7.1% to 10.9%.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

As finance cost decreased by 31.6% to HK\$47.1 million (2000: HK\$68.9 million), the Group was able to achieve profit attributable to shareholders of HK\$12.9 million (2000: loss of HK\$18.6 million). Earnings per share was 1.55 Hong Kong cents (2000: loss per share of 2.25 Hong Kong cents).

OPERATION REVIEW

ELECTRIC POWER MARKET & ELECTRICITY SALES

During the year, electricity demand of Foshan City sustained satisfactory growth mainly due to the relatively robust economic growth of Guangdong Province. However, electricity demand increases mainly concentrated on the peak load demand periods during which Shakou JV's power generating facilities have already been operated at almost full capacity. The electricity demand growth had only limited beneficial impact on Shakou JV. On the other hand, the high fuel oil prices reduced Shakou JV's competitiveness during low demand periods as electricity supplies at lower prices were abundantly available from the provincial electric power grid. Shakou JV's electricity sales experienced almost stagnant growth at approximately 1.60 billion kilowatt-hours ("kwhs") (2000: 1.61 billion kwhs). Out of the total electricity sold, approximately 219.2 million kwhs (2000: 244.4 million kwhs) were purchased from another local power plant in Foshan City while approximately 1.38 billion kwhs (2000: 1.37 billion kwhs) were Shakou JV's self generation. Shakou JV's average plant utilization rate was approximately 52.5% (2000: 52.0%).

FUEL OIL PRICES

Compared with the previous year, fuel oil prices have been more stable and remained at a softer tone. The weighted average cost of heavy oil consumed by Shakou JV for the year decreased by 7.7% to Renminbi 1,628 (2000: Renminbi 1,764) per tonne. The per unit composite fuel cost of electricity decreased by 7.7% to Renminbi 0.36 (2000: Renminbi 0.39). The decrease was mainly attributable to the softening of international oil prices. Although additional fuel oil cost surcharge received from Foshan Electric Power Corporation decreased from the previous HK\$27.7 million to HK\$21.1 million, Shakou JV's gross profit margin improved. During the year, Shakou JV continued to implement mitigating measures to reduce the adverse impact of

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the high and fluctuating fuel oil prices on its performance. Shakou JV's weighted average costs of fuel oil consumed were reduced as a result of its bulk-purchasing fuel strategy. In addition, Shakou JV negotiated with its China joint-venture partner and obtained its agreement to reduce the loan rates for the unsecured Renminbi long-term loans from 10.08% to 8.08% per annum for the year. As a long-term defensible business strategy, Shakou JV approved a feasibility study to perform an upgrading of Shakou JV's power generating facilities during a major overhaul in 2003.

MAJOR OVERHAUL

On 30 September 2001, Shakou JV entered into an agreement ("Overhaul Agreement") with an European equipment supplier (the "Supplier") whereby the Supplier agreed (1) to supply spare parts and upgrading materials; and (2) to render technical services to Shakou JV for the performance of a routine large-scale inspection and overhaul, and an upgrade of its power generating facilities. The total consideration of the Overhaul Agreement was US\$19.5 million (equivalent to HK\$150.8 million).

FINANCIAL REVIEW

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2001, the Group's total current assets amounted to HK\$315.6 million (2000: HK\$239.5 million). Current assets comprised principally: (1) cash & cash equivalents of HK\$140.8 million (2000: HK\$151.3 million); and (2) trade and other receivables of HK\$163.8 million (2000: HK\$81.3 million). The Group's current liabilities amounted to HK\$327.9 million (2000: HK\$243.5 million). Current liabilities comprised principally (1) current portions of long-term loans of an aggregate amount of HK\$136.6 million (2000: HK\$106.1 million); and (2) trade and other payables of an aggregate amount of HK\$163.3 million (2000: HK\$105.1 million). The Group's short-term liquidity position tightened with net working capital deficit increased to HK\$12.3 million (2000: HK\$3.9 million). Current ratio decreased from the previous 0.98 to 0.96. During the year, the Group continued to fund its operation principally by internal cash flow generated from its operating activities. Compared with the previous year, net cash inflow from operating activities decreased by 52.3% to HK\$121.6 million (2000: HK\$254.8 million). This was mainly attributable to the extension of credit periods to Foshan Electric Power Corporation. Accounts receivable turnover (turnover as a percentage of accounts receivable) therefore declined from the previous 10.4 to 4.9 and the average collection period lengthened from the previous 35 days to 75 days. At the same time, credit periods from suppliers were also extended to improve the Group's cash flow position. Cash expenditure on tangible fixed assets for the year was HK\$3.2 million (2000: HK\$56.9 million).

CAPITAL STRUCTURE AND GEARING RATIO

As at 31 December 2001, the Group had no outstanding bank borrowings or committed bank credit facilities. The Group continued to finance its non-current assets principally by a mix of long-term debts and shareholders' equity. The Group's total long-term debts (including its current portions) decreased by 11.3% to HK\$566.8 million (2000: HK\$638.8 million). During the year, the Group made partial repayment by internal cash flow generated from its operating activities. Gearing ratio, being total long-term debts (including its current portions) as a percentage of shareholders' fund, improved from the previous 44.3% to 38.9%. Total long-term debts comprised: (1) the aggregate outstanding balance of certain unsecured Renminbi loans due to Shakou JV's PRC joint-venture partner and its associates of HK\$560.1 million (2000: HK\$618.6 million); and (2) the outstanding balance of an unsecured Hong Kong dollar promissory note due to a controlling shareholder of the Company of HK\$6.7 million (2000: HK\$20.2 million). Long-term loans were primarily employed to re-finance Shakou JV's investment in its fixed assets, principally power generating

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facilities, and were repayable within 10 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 4 years commencing from April 1998.

NET ASSETS

The Group's net assets amounted to HK\$1.46 billion (2000: HK\$1.44 billion). Goodwill arising from acquisition of subsidiaries was HK\$673.2 million (2000: HK\$704.8 million). As at 31 December 2001, no part of the Group's assets was charged to banks, financial institutions or other enterprises. Net assets per share improved from the previous HK\$1.74 to HK\$1.76 while net tangible assets per share also improved from the previous HK\$0.89 to HK\$0.94.

COMMITMENT FOR SIGNIFICANT CAPITAL EXPENDITURE

As at 31 December 2001, the Group has capital expenditure commitment of approximately US\$19.5 million (equivalent to approximately HK\$150.8 million) (2000: Nil), being the total consideration of the Overhaul Agreement. During the year, a total amount of US\$5.9 million (equivalent to HK\$45.3 million) has been paid by internal resources as advanced payment and the remaining balance of US\$13.6 million (equivalent to HK\$105.5 million) is expected to be substantially financed by bank credit facilities. In this respect, Shakou JV is in the process of negotiation with its banker in China for credit facilities such are expected to finalize in July 2002. Details of the Overhaul Agreement have already been disclosed in the Company's circular to shareholders dated 22 October 2001. Apart from such, there was no other significant capital expenditure commitment outstanding at the year end.

CONTINGENT LIABILITIES

As at 31 December 2001, the Group has contingent liabilities of approximately HK\$43 million (2000: 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 substantially denominated in Renminbi. Pursuant to the Overhaul Agreement, a total amount of US\$13.6 million (equivalent to approximately HK\$105.5 million), representing the remaining balance of the Overhaul Agreement need to be settled in US dollars during 2002 and 2003. Currently the exchange rates of Renminbi against Hong Kong dollars and US dollars are still stable. 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

As at year end, the Group employed a total of approximately 205 staff (2000: 190 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\$16.7 million (2000: HK\$14.6 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\$2.3 million (2000: HK\$2.0 million) and HK\$26,000 (2000: HK\$144,000) respectively. The Company in Hong Kong operated a share option scheme for its senior management staff. During the year, no such

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share option (2000: Nil) was granted. With effect from 1 September 2001, no further share option may be granted by the Company under the existing scheme following the amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") ("Listing Rules") by the Stock Exchange. The Directors consider that it may be in the best interests of the Company to adopt a new scheme in place of the existing scheme and will seek approval of a new scheme from the Company's shareholders.

OUTLOOK

Fuel oil prices are expected to settle at lower levels in the medium and long term despite their short-term fluctuations. Barring any unforeseen circumstances, the Directors are confident of the profit recovery of Shakou JV and hence the Group. The Group will continue to implement its mitigating measures to reduce its fuel oil costs, finance costs and other operating expenses. Although Shakou JV also faces the challenge of increasing competition brought about by China's electric power industry reform (which details will be gradually released in the year), Shakou JV's performance is supported by a power purchase agreement entered into between Shakou JV and the local power bureau of Foshan City. Nevertheless, as its single core business, Shakou JV's profitability continues to substantially dictate the Group's performance. To reduce the Group's susceptibility to fuel oil price fluctuations and changing market environment in the future, the Directors have endeavoured to improve Shakou JV's cost effectiveness and to consider repositioning the Company by diversifying into other business opportunities in the long-term. As reported in the previous sections, Shakou JV will undergo a routine large-scale inspection and overhaul in early 2003 whereby an upgrading of its power generating facilities will be installed. Upon completion of the overhaul, Shakou JV's cost of production is expected to be reduced as future repairs and maintenance cycles will be lengthened and fuel consumption efficiency will be improved. Furthermore, the Directors will continue to explore into various potential business opportunities in Foshan City and the nearby regions. Based on the Group's long-established business relationship with Foshan City, the Directors are optimistic of the long-term business prospects of the Group.

HE Haochang

Managing Director

Hong Kong, 10 April 2002