

# 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.

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## 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.