PERFORMANCE REVIEW

The Group's total turnover grew by 11.25% to HK$824.04 million (2004: HK$740.72 million) which included additional fuel cost surcharges received of HK$82.07 million (2004: HK$12.28 million). With effect from 1 May 2005, the on-grid tariff has increased by HK$0.04 per kilowatt-hour excluding value added tax. The growth mainly resulted from the increase in additional fuel cost surcharges approved and received during the year and the increase in on-grid tariff. However, the total cost of sales grew more markedly by 23.85% to HK$926.11 million (2004: HK$747.75 million), primarily reflecting the increase in fuel oil cost during the year. As the Guangdong Provincial Government and the customer have not yet agreed the additional fuel cost surcharges for the year and hence the Group has not yet recognized and received the amount of additional fuel cost surcharges for the period from 1 May 2005 to 31 December 2005. The Group suffered gross loss of HK$102.07 million (2004: HK$7.03 million) resulting from the continuing increase in fuel oil cost, such cost recorded a relatively high growth, and the timing difference in relation to the approval and receiving of additional fuel cost surcharges. Administrative expenses was increased by 8.61% to HK$24.46 million (2004: HK$22.52 million), loss from operations amounted to HK$806.80 million (2004: HK$47.03 million). Loss from operations included HK$698.66 million in respect of impairment loss on goodwill and fixed assets during the year. There was no goodwill amortization for the year (2004: HK$31.62 million) as the adoption of the new Hong Kong Accounting Standards issued by Hong Kong Institute of Certified Public Accountants. Finance cost continued to decline from the previous HK$20.89 million to HK$18.56 million. Loss before taxation widened to HK$825.36 million (2004: HK$67.92 million) and loss per share further deepened from the previous 6.73 Hong Kong cents to 91.86 Hong Kong cents.

OPERATIONAL REVIEW

Market Review

During the year, Foshan Municipality experienced sustained electricity demand growth as a result of the sustained strong growth of economic activities of Guangdong Province, the People's Republic of China (the "PRC"). Despite the increased power supplies from the provincial grid, electricity supply shortage persisted. The Company's subsidiary, Foshan Shakou Power Plant Co., Ltd. ("Shakou JV") which owns and operates Shakou JV power plant, and other local power plants in Foshan Municipality had to operate at maximum capacity during peak load demand periods in order to improve the tight supply situation. However, operating environment remained extremely difficult as fuel oil prices surged to new high levels and hovering at such levels during the year as a result of the movements in international oil prices. Furthermore, on-grid tariff adjustment remained inflexible under the strict control of the relevant authorities of the Guangdong Provincial Government.

OPERATIONAL REVIEW (Continued)

Electricity Sales

The Group decreased its electricity sales volume by 5.19% to approximately 1.46 billion (2004: 1.54 billion) kilowatt-hours. All the electricity produced was primarily sold to the Group's sole customer, 廣東電網公司佛山供電局 (Guangdong Power Grid Company, Foshan Power Supply Bureau) formerly named 廣東省廣電集團有限公司佛山供電分公司 (Guangdong Guang-Dian Power Grid Group Co. Ltd., Foshan Branch), for onward sales and transmissions to end-users in Foshan Municipality, Guangdong Province, the PRC. The Group's on-grid tariff has increased by HK$0.04 per kilowatt-hour excluding value added tax with effect from 1 May 2005. The average plant utilization rate for the year dropped to 57.43% (2004: 59.00%). During the year, no major incident of mechanical breakdown or operational failure was recorded.

Fuel Oil Prices

During the year, international oil prices continued to hike and fuel oil prices hovered at new high levels. With the support of its fuel oil suppliers, the Group continued its strategic bulk-purchasing policy and was able to sustain a less marked increase as compared with market magnitude in fuel oil cost. The weighted average cost of heavy oil consumed by Shakou JV for the year therefore increased by 32.68% from the previous Renminbi 1,946 to Renminbi 2,582 per tonne. Shakou JV has decided to reduce the generation of electricity in low demand periods to balance the effect from increase in fuel oil prices.

Additional Fuel Cost Surcharges

The Group continued its strategy to reduce the full impact of increased fuel oil cost on its performance by negotiating with the relevant PRC parties of the Guangdong Provincial Government and the customer for additional fuel cost surcharges. During the year, the Group received the approved additional fuel cost surcharges of an aggregate amount of HK$82.07 million (2004: HK$12.28 million). However, as up to the date of this report, the relevant PRC parties of the Guangdong Provincial Government and the customer have not yet agreed the additional fuel cost surcharges for the period from 1 May 2005 to 31 December 2005. The management would endeavor its best effect to liaise and to struggle for additional fuel cost surcharges to offset the adverse impact of the increased fuel cost on the Group's operating results.

Subsidies from Local Government

After the strong request of the oil-fired power plants in the Foshan Municipality, the People's Government of Foshan Municipality has committed to give subsidies to the oil-fired power plants from the last quarter of 2005. The amount approved for the last quarter of 2005 was HK$11.58 million which had been incorporated in the accounts as government grants. The management would continue to request for more subsidies from the local government in order to set off part of the impact of increased fuel oil cost on its performance.

OPERATIONAL REVIEW (Continued)

Major Overhaul of Shakou JV Power Plant

On 18 July 2005, Shakou JV entered into long term spare parts supply agreement, long term reconditioning services agreement and long term technical agreement with an independent supplier for major overhaul of Shakou JV power plant. According to the agreements, two purchase orders both dated 23 August 2005 were placed by Shakou JV requesting the supplier to supply certain spare parts and inspection respectively to the Shakou JV power plant for the purposes of undertaking a routine large-scale inspection and overhaul and upgrading program for the Shakou JV power plant. Upon the completion of the purchase orders, it is expected that the power generating facilities will be benefit in the following ways:

1. ability to maintain maximum capacity availabilities of the power generation facilities at all times, especially during peak load demand periods;

2. ability to maintain uninterrupted electricity supply to Foshan Municipality; and

3. avoidance of or reduction in the occurrence of unexpected failures and breakdowns.

Details of the purchase orders had been disclosed in the Company's circular dated 13 September 2005.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group funded its operation largely by internal cash inflow generated from its operating activities even though suffered a significant loss for the year which included a non-cash flow impairment loss on goodwill and fixed assets amounted HK$698.66 million (2004: HK$31.62 million in respect of goodwill amortization). Net cash generated from operating activities amounted to HK$68.14 million (2004: net cash used in operating activities of HK$46.52 million) mainly due to the decreased trade receivables. Net cash used in investing activities amounted to HK$5.10 million (2004: net cash generated from investing activities of HK$0.93 million) mainly due to the advance payment for major overhaul of the Shakou JV power plant. During the year, the Group did not repay other loans (2004: repaid of HK$87.79 million) and repaid bank loans of HK$47.39 million (2004: HK$50.53 million) which re-financed by proceeds from new bank borrowings of HK$47.39 million (2004: HK$97.32 million). As a result, net cash used in financing activities amounted to HK$28.96 million (2004: HK$76.41 million) mainly due to the payment of interests. Total cash and cash equivalents as at balance sheet date therefore increased from beginning of the year HK$98.26 million to HK$132.34 million.

As at balance sheet date, the Group's total current assets amounted to HK$259.47 million (2004: HK$296.22 million), which mainly comprised of cash and cash equivalents of HK$132.34 million (2004: HK$98.26 million); and trade and other receivables of HK$101.75 million (2004: HK$179.80 million). Total current liabilities amounted to HK$164.68 million (2004: HK$273.81 million), which mainly comprised of trade and other payables of HK$135.58 million (2004: HK$132.10 million); other loans due within one year of HK$ nil (2004: HK$93.68 million); and bank loans due within one year of HK$28.85 million (2004: HK$46.79 million). Net working capital surplus amounted to HK$94.79 million (2004: HK$22.41 million). Current ratio moderately increased from the previous 1.08 to 1.58. Net loans (total short-term and long-term loans less cash) dropped 7.18% to HK$293.49 million (2004: HK$316.18 million).

FINANCIAL REVIEW (Continued)

Committed Banking Facilities

As at 31 December 2005, the Group had available committed banking facilities in Renminbi from three PRC banks for an aggregate amount of HK$201.92 million (2004: HK$196.52 million). Up to 31 December 2005, HK$128.85 million (2004: HK$125.40 million) was drawn down and the bank loans bear interest at an annual rate from 4.941% to 5.184% (2004: from 4.779% to 4.941%). Save as disclosed herein, the Group had no other bank borrowings or committed banking facilities.

Charge on Group Assets

As at 31 December 2005, Shakou JV power generating facilities of an aggregate carrying value of HK$1,066.17 million (2004: HK$1,120.70 million) were charged to three banks in the PRC to secure the respective banking facilities for Shakou JV's working capital requirements. Apart from such, no other part of the Group's assets has been charged to banks, financial institutions of other enterprises.

Capital Structure and Gearing Ratio

The Group continued to finance its non-current assets principally by a mix of long-term loans and shareholders' equity. The Group's non-current portion of long-term loans amounted of HK$396.98 million (2004: HK$273.96 million). Total long-term loans mainly comprised: (1) the aggregate outstanding balance of the unsecured long-term Renminbi loans due to Shakou JV's PRC joint-venture partner and its associate; and (2) Renminbi term loans due to three PRC banks. The long-term Renminbi loans due to Shakou JV's PRC joint-venture partner and its associate were primarily employed to re-finance Shakou JV's investment in its fixed assets, principally power generating facilities, and were repayable within 10 years commencing in 1997 and 1998. The applicable interest rates for the year were 5.76% (2004: 5.76%) per annum. During the year, Shakou JV negotiated with its PRC joint-venture partner and its associate to reschedule the loan repayments amounted of HK$153.69 million due in 2006 (2004: HK$93.70 million due in 2005) extending the expiry for about 24 months (2004: 18 months). During the year, Shakou JV had repaid the bank loans of HK$47.39 million (2004: HK$50.53 million) and then made proceeds from new bank loans of HK$47.39 million (2004: HK$97.32 million). Gearing ratio, being the aggregate amount of the non-current portion of long-term bank loans and other loans as a percentage of equity attributable to equity shareholders of the Company, sharply increased from the previous 19.67% to 61.01%.

Net Assets

The Group's net assets value excluding minority interests amounted to HK$650.69 million (2004: HK$1,392.54 million). At beginning of the year, the carrying value of goodwill arising from acquisition of subsidiaries was HK$578.32 million which was written off as impairment loss on goodwill. Furthermore, impairment loss on fixed assets of HK$120.34 million (2004: nil) was recognized at the end of the year. Therefore, net assets excluding minority interests per share decreased from the previous HK$1.68 to HK$0.78 while net tangible assets (net assets value excluding minority interests and goodwill) per share only decreased from the previous level of approximately HK$0.98 to HK$0.78.

FINANCIAL REVIEW (Continued)

Contingent Liabilities

As at 31 December 2005, the Group had contingent liabilities of approximately HK$43 million (2004: HK$43 million). The details of which has been disclosed in the section headed "Contingent Liabilities" under "Notes on the Accounts" in this report.

Exchange Rate Risk

During the year, the Group's revenue, operating costs, finance costs, debt servicing and capital expenditure were substantially denominated in Renminbi. Currently the exchange rate of Renminbi against Hong Kong dollars has been relatively stable. No financial instrument has been used for the purpose of hedging exchange rate risk during the year.

Employees and Remuneration Policies

As at balance sheet date, the Group employed a total of approximately 173 (2004: 204) staff including directors of the Company. Remuneration packages principally comprised salary, discretionary performance bonuses based on individual merits and share option scheme. The Group's total employee remuneration for the year was approximately HK$22.67 million (2004: HK$21.41 million).

BUSINESS RISK ASSESSMENT

The major operating expense of the Group is fuel oil cost. Due to the continuing rise in fuel oil prices, such cost recorded a relatively significant increase and hovering at such high levels which caused the Group to suffer from gross loss result. Strong global growth may lead to continuous high oil prices. The said ongoing rise in oil prices will be a critical factor to the Group. The on-grid tariff adjustment remained inflexible because it is determined by mutual agreement with the sole customer and also subject to the approval by the relevant authorities of the Guangdong Provincial Government, such as Guangdong Provincial Price Bureau.

The management continues its strategy to reduce the full impact of increased fuel oil cost on its performance by negotiating with the relevant PRC parties of the Guangdong Provincial Government and the sole customer for additional fuel cost surcharges and increase in on-grid tariff. The management will also request for more subsidies from the Foshan Municipality.

In fact, the increases in on-grid tariff and additional fuel cost surcharges are not in line with the increase in fuel oil prices. It is probably due to the fact that the pace of increase in fuel oil prices is far faster than the increase in on-grid tariff and additional fuel cost surcharges. Moreover, most of the additional fuel cost surcharges for the current year will be received in next year or even later as the amount is not approved and as such the amount involved may become larger and larger. In case such situation is going on, it will constitute an adversely significant impact on the liquidity and especially the gross loss on top of the results of the Group.