

# Management Discussion and Analysis

## FINANCIAL HIGHLIGHTS

• Power Generation	:	313.3 million kilowatt hour
• Turnover	:	\$187,786,000
• Profit attributable to shareholders	:	HK\$5,067,000
• Earnings per share	:	HK2.63 cents

The board of directors (the “Board”) of Enerchina Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2003.

During the period under review, the Group recorded consolidated turnover of HK\$187.8 million, representing an increase of 166.2% over the same period last year. The net profit for the period was HK\$5.1 million, an encouraging turnaround as compared to the loss of HK\$72.3 million during the same period last year. The earnings per share was HK2.63 cents and the net asset value per share as at 30 June 2003 was HK\$1.72.

## BUSINESS REVIEW

### Electricity generation

In the first half of 2003, the growth of both power generation and consumption maintained at fast pace. Notwithstanding the outbreak of Severe Acute Respiratory Syndrome which slowed down the growth of the overall economy, the power generation industry was not impacted significantly. During the first half of the year, the gross domestic product was estimated to grow by 8.2%, and the growth of national power consumption was even stronger. The growth was particularly remarkable in developing cities including Shenzhen. According to the statistics, the total domestic electricity consumption increased by nearly 15.4% during the first six months in 2003 to 861.7 billion kilowatt hour, and is expected to reach 1,850 billion kilowatt hour by the end of the year. The rapid growth in electricity demand, together with the implementation of industry reform by the PRC government, provide a fair and competitive platform for the industry players which in turn give new and good opportunities to the Company for achieving sustainable growth and development.

### Property investment

As mentioned before, it is the Group’s strategy to gradually dispose of its properties portfolio. During the period under review, the Company disposed of its last investment property at a gross consideration of HK\$550,000 and incurred a loss of approximately HK\$126,000. With the disposal of all its investment properties, the Group had discontinued its property investment business and would focus its resources on the electricity generation business in the PRC.

# Management Discussion and Analysis

## Financial Review

The expansion of the Group's operating unit – Fuhuade power plant had been completed and its commercial operation commenced in May 2003. With a total installed capacity of 305,000 kilowatts, Fuhuade power plant lays a solid foundation for the Group to target for higher profitability and sustainable growth. During the six months ended 30 June 2003, the Group sold a total of 313.3 million kilowatt hour electricity, representing a significant increase of 161.5% as compared to 119.8 million kilowatt hour of the same period last year. The consolidated turnover also increased by 1.66 times to HK\$187.8 million. The growth of power generation and the increase in turnover was primarily contributed from the new generating unit which started its commercial operation in May 2003.

The direct operating expenses also increased in line with the power generation to HK\$162.6 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\$137.2 million. The higher fuel cost was primarily due to the soaring world oil price which had increased by over 30% in the first half of 2003 in response to the labor strike in Venezuela and the uncertainties in the Middle East. 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 135% to HK\$6.9 million. The increase was mainly attributable to the additional financing for the expansion plan of the power plant.

Net profit attributable to shareholders was HK\$5.1 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 192,747,318 shares in issue during the period, the basic earnings per share was HK2.63 cents.

## Prospect

With the continuing growth of the domestic economy, the management believes that power consumption will continue to grow, putting pressure on the industry to increase power generation. The Group is currently conducting feasibility studies towards switching to the utilization of natural gas as fuel and the further expansion of its installed capacity to 1,000,000 kilowatts. The implementation of such reforms will further increase the Group's power generation capacity and operation efficiency, which in turn enhance the overall profitability of the Group as a whole.