



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 2004.

## FINANCIAL HIGHLIGHTS

- Power Generation up 1.0 time to 633.5 million kilowatt hour
- Turnover up 94.2% to HK\$364,675,000
- Net profit up 4.9 times to HK\$29,868,000
- Earnings per share up 49.0% to HK1.55 cents

## MANAGEMENT DISCUSSION & ANALYSIS

During the period under review, the Group recorded consolidated turnover of HK\$364.7 million, representing an increase of 94.2% over the same period last year. The net profit for the period was HK\$29.9 million, a significant increase of 4.9 times as compared to the same period last year. The basic earnings per share was HK1.55 cents, an increase of 49.0% as compared to same period last year and the net asset value per share as at 30 June 2004 was HK\$0.56.

## BUSINESS REVIEW

### Electricity generation

In the first half of 2004, despite the fact that the government of the People’s Republic of China (the “PRC”) introduced macroeconomic measures to adjust its economy, the growth of both power generation and consumption remained high in the PRC. In fact, due to the shortage of electricity supply over demand, several provinces in the PRC had taken measures to restrict electricity consumption. The gross domestic products in the PRC grew by 9.7% over the period under review and the power generation industry grew at an even greater rate with the total domestic electricity consumption grew by approximately 15.8% in the same period.

In order to meet this tremendous demand for electricity, the Group continues to seek opportunities to further expand its capacity and on 2 January 2004, the Group was granted an in-principle approval from the relevant government authority to install additional 180,000 kilowatts to its total installed power generating capacity. Together with the existing power generating units and the expansions already in progress, the installed capacity of the Group will reach a total of 665,000 kilowatts after completion of the abovementioned expansions. The increased installed capacity together with the tremendous demand for power generation in the PRC creates favourable conditions for our growth in this industry.

## FINANCIAL REVIEW

During the six months ended 30 June 2004, the Group sold 633.5 million kilowatt hour of electricity, representing an increase of 1 time as compared to 313.3 million kilowatt hour over the same period last year. This increase mainly contributed by the full six months period operation of the second combined cycle generating unit which commenced commercial production in May 2003. The consolidated turnover also increased by 94.2% to HK\$364.7 million.

The direct operating expenses also increased in line with the power generation to HK\$287.7 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\$246.2 million. The higher fuel cost was primarily due to the staggering high world oil price in the first half of 2004 in response to the various uncertainties encountered in the oil producing regions. 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 9.0% to HK\$7.6 million. The increase was mainly attributable to the additional financing for the construction of the third combined cycle generating unit at Dapeng Town, Shenzhen.



Net profit was HK\$29.9 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 1,933,087,279 shares in issue during the period, the basic earning per share was HK1.55 cents.

## FINANCIAL POSITION

The Group's total borrowings increased from HK\$485.5 million as at 31 December 2003 to HK\$1,210.8 million as at 30 June 2004. The increase is mainly due to raising of additional bank loans to finance the expansion of the Fuhuade Power Plant. The overall gearing ratio, which is calculated as total borrowings over total assets of the Group, was 43.7%. The proportion of borrowings due within one year to total borrowings also increased from 30.4% as at 31 December 2003 to 33.6% and a long term liabilities to equity ratio of 62.2%.

Total assets pledged in securing these loans have a net book value of HK\$1,007.3 million as at 30 June 2004. All the bank borrowings of the Group are at floating rates and denominated in both RMB and US dollars. As the entire operation of the Group is carried out in the PRC, substantial receipts and payments in relation to the operations are denominated in RMB. When appropriate, financial instruments were used for hedging purpose to minimize exchange rate and commodity price exposures.

The Group's cash and cash equivalents amounted to approximately HK\$1,173.4 million as at 30 June 2004 and are mostly denominated in RMB, Hong Kong dollars and US dollars.

## CONTINGENT LIABILITIES

A supplier filed an arbitration in August 2003 against Fuhuade Power Plant claiming for additional contract price in the amount of HK\$28.0 million. The arbitration is still in progress and the outcome of such cannot be ascertained. No provision for the amount claimed has been made by the Group as at 30 June 2004. Save as the outstanding arbitration, the Group has no material contingent liabilities as at 30 June 2004.

## CAPITAL COMMITMENTS

As at 30 June 2004, the Group had capital commitments in respect of the acquisition of property, plant and equipment amounted to HK\$332.5 million.

## PROSPECTS

In the second half of 2004, the Group expects its third combined cycle generating unit with the installed capacity of 180,000 kilowatts, to complete its construction, test running and commences production in September 2004 as scheduled. The Group will also monitor closely the construction progress of its forth combined cycle generating unit to achieve at least on schedule or earlier than scheduled completion date of second quarter of 2005.

In response to the strong demand for electricity in the PRC, the Group is also conducting feasibility studies towards switching to the utilization of natural gas as fuel and to further expand its capacity to 1,000,000 kilowatts or by exploring new projects in the markets to ensure the Group can maintain a high growth rate in the future.

On the operational side, the soaring oil price pose challenges for the Group to continue to monitor closely to the oil price movement in the world market and enforce stringent control over the inventory level and further strengthen the procurement procedures to control over our fuel costs.

The implementation of such reforms will further increase the Group's power generation capacity and operation efficiency, which in turn will bring stable returns to its shareholders.



## **MAJOR EVENTS**

On 19 February 2004, the Board proposed an open offer of 1,525,525,936 offer shares of HK\$0.01 each at HK\$0.40 per offer share on the basis two offer shares for every existing share held. Sinolink Worldwide Holdings Limited (“Sinolink”), through its wholly owned subsidiary, acted as the underwriter of the open offer. The Company raised approximately HK\$600.5 million from the open offer and the transaction was completed on 19 April 2004.

Upon completion of the open offer, the beneficial shareholding of Sinolink in the issued share capital of the Company was increased from 33.7% to 37.1%.

## **EMPLOYEES AND REMUNERATION POLICIES**

At 30 June 2004, the Group employed approximately 188 full time employees. The Group recognizes the importance of high calibre and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. In addition, share options may be 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.