

If you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Enerchina Holdings Limited**, you should at once hand this document and the accompanying Pink Form of Acceptance to the purchaser or to the transferee or to the bank, licensed securities dealer or other agent through whom the sale was effected for transmission to the purchaser or transferee. This document should be read in conjunction with the Forms of Acceptance, the contents of which form part of the terms of the Offers contained herein.

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百仕達控股有限公司*

SINOLINK WORLDWIDE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1168)



ENERCHINA HOLDINGS LIMITED

威華達控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 622)

UNCONDITIONAL MANDATORY GENERAL OFFERS

BY

Morgan Stanley
摩根士丹利

ON BEHALF OF

**SINOLINK WORLDWIDE HOLDINGS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF AND
FOR CANCELLATION OF ALL OUTSTANDING OPTIONS OF
ENERCHINA HOLDINGS LIMITED
(OTHER THAN THOSE SHARES HELD BY
SINOLINK WORLDWIDE HOLDINGS LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

Financial Adviser to Sinolink Worldwide Holdings Limited

Morgan Stanley
摩根士丹利

**Independent Financial Adviser to
the Enerchina Independent Board Committee**

 **道亨證券有限公司**
DaoHeng Securities Ltd.

A letter from the Enerchina Independent Board Committee containing its recommendation in respect of the Offers to the Enerchina Independent Shareholders and the Optionholders is set out on pages 21 to 22 of this document and a letter from the Independent Financial Adviser, Dao Heng Securities Limited, containing its advice to the Enerchina Independent Board Committee in respect of the Offers is set out on page 23 to 38 of this document.

The procedure for acceptance and settlement of the Offers is set out on pages 39 to 43 in Appendix I to this document and in the accompanying Forms of Acceptance. Acceptances of the Share Offer should be received by Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:00 p.m. on Tuesday, 18 January 2005. Acceptances of the Option Offer must be received by the company secretary of Enerchina Holdings Limited at 28th Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong by not later than 4:00 p.m. on Tuesday, 18 January 2005.

28 December 2004

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EXPECTED TIMETABLE

Despatch date of this document	Tuesday, 28 December 2004
Commencement of the Offers	Tuesday, 28 December 2004
Latest time and date for acceptance of the Offers	4:00 p.m. on Tuesday, 18 January 2005
Closing Date (<i>Note 1</i>)	Tuesday, 18 January 2005
Announcement of the results of the Offers as at the Closing Date, on the Stock Exchange's website	By 7:00 p.m. on Tuesday, 18 January 2005
Announcement of the results of the Offers published in newspapers	Wednesday, 19 January 2005
Latest date for posting of remittances for the amounts due under the Offers in respect of valid acceptances received on or before the latest time of acceptances of the Offers (<i>Note 2</i>)	Friday, 28 January 2005

Notes:

- (1) The Offers will close at 4:00 p.m. on 18 January 2005.
- (2) Pursuant to the Takeovers Code, payment will be made as soon as possible but in any event within 10 days after the date of receipt by the Registrar or the company secretary of the Company (as the case may be) of the requisite documents from the Enerchina Independent Shareholders and the Optionholders accepting the Offers.
- (3) The Offeror does not intend to extend the Offers.
- (4) Acceptances of the Offers shall be irrevocable and cannot be withdrawn, save for under Rule 19.2 of the Takeovers Code.

All time references contained in this document refer to Hong Kong time.

DEFINITIONS

In this document, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the acquisition by Smart Orient from the Vendors of 298,642,000 Enerchina Shares on 3 December 2004
“Acquisition Consideration”	HK\$0.63 per Enerchina Share, being the consideration per Share paid by Sinolink for the Acquisition
“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Announcement”	the joint announcement of Sinolink and Enerchina dated 6 December 2004 in relation to, among other things, the Offers
“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Enerchina Directors
“Closing Date”	18 January 2005, being 21 days after the date on which this document is posted
“Company” or “Enerchina”	Enerchina Holdings Limited (stock code: 622), a company incorporated in Bermuda whose shares are listed on the Main Board of the Stock Exchange
“Connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Dao Heng Securities”	Dao Heng Securities Limited, a company incorporated in Hong Kong, which is a deemed licensed corporation under the SFO to conduct Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance), Type 7 regulated activity (providing automated trading services) and Type 9 regulated activity (asset management) under the SFO, the independent financial adviser to the Enerchina Independent Board Committee, in relation to the Offers
“Enerchina Directors”	the directors, including independent non-executive directors, of the Company
“Enerchina Independent Board Committee”	the committee of Enerchina Directors, comprising Lu Yungang, formed to advise the Enerchina Independent Shareholders and Optionholders in respect of the terms of the Offers
“Enerchina Independent Shareholders”	Enerchina Shareholders other than the Offeror and parties acting in concert with it
“Enlarged Sinolink Group”	the Group together with the Sinolink Group
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
“Facility”	a secured loan facility of up to HK\$460 million in aggregate, secured over all the assets of the Offeror, provided by Morgan Stanley Senior Funding, Inc. to the Offeror subject to the terms and on the conditions set out in the Facility Agreement

DEFINITIONS

“Facility Agreement”	the facility agreement dated 6 December 2004, as amended by a letter agreement dated 23 December 2004, and made between Morgan Stanley Senior Funding, Inc. as Lender and the Offeror as borrower in relation to the Facility
“Forms of Acceptance”	the Pink Form of Acceptance and the White Form of Acceptance
“Group” or “Enerchina Group”	the Company and its subsidiaries (as defined in the Companies Ordinance (Cap. 32 of the Laws of Hong Kong))
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	24 December 2004, being the latest practicable date prior to the printing of this document for the purposes of ascertaining certain information contained herein
“Lender”	Morgan Stanley Senior Funding, Inc., a company incorporated in Delaware, the lender under the Facility Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Morgan Stanley”	Morgan Stanley Dean Witter Asia Limited, a company incorporated in Hong Kong, which is licensed for Type 1 regulated activity (dealing with securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance) and Type 7 regulated activity (providing automated trading services) under the Securities and Futures Ordinance
“Mr. MacKenzie”	Mr. Davin A. MacKenzie, an independent non-executive director of the Offeror and an independent non-executive director of the Company
“Mr. Ou”	Mr. Ou Yaping, the Chairman and an executive director of the Offeror and the Vice Chairman and an executive director of the Company
“Mr. Tang”	Mr. Tang Yui Man Francis, the Chief Executive Officer and an executive director of the Offeror and an executive director of the Company
“Mr. Xin”	Mr. Xin Luo Lin, an independent non-executive director of the Offeror and an independent non-executive director of the Company
“New China”	New China Control Systems Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by the Company (prior to the sale of its issued shares by the Company to an independent third party)
“Offers”	the Share Offer and the Option Offer
“Offeror” or “Sinolink”	Sinolink Worldwide Holdings Limited (stock code: 1168), a company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange

DEFINITIONS

“Offeror Group” or “Sinolink Group”	the Offeror and its subsidiaries (as defined in the Companies Ordinance (Cap. 32 of the Laws of Hong Kong)) (excluding the Enerchina Group)
“Option Exercise Price”	an amount between HK\$0.44 to HK\$0.55 (inclusive), subject to adjustment, being the price at which the Optionholders may subscribe for new Shares on the terms of the Options
“Option Offer”	the mandatory unconditional cash offer being made by Morgan Stanley on behalf of the Offeror to cancel all the Options at the Option Offer Price
“Option Offer Price”	being HK\$0.63 less the Option Exercise Price per Option
“Optionholders”	holders of the Options
“Options”	an aggregate of 115,062,000 outstanding options granted by the Company under the share option schemes of the Company adopted on 26 July 1993 and 24 May 2002, each conferring on the grantees the right to subscribe for one new Share at the Option Exercise Price
“Pink Form of Acceptance”	the form of acceptance and transfer for the Share Offer
“PRC”	the People’s Republic of China, excluding for the purposes of this document, Hong Kong, Macau and Taiwan
“Registrar”	Computershare Hong Kong Investor Services Limited
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“SFC”	the Securities and Futures Commission
“Share(s)” or “Enerchina Share(s)”	share(s) of HK\$0.01 each in the capital of the Company
“Share Offer”	the mandatory unconditional cash offer being made by Morgan Stanley on behalf of the Offeror to acquire all the issued Shares other than those held by the Offeror and parties acting in concert with it at the Share Offer Price
“Share Offer Price”	being HK\$0.63 per Share
“Shareholders” or “Enerchina Shareholders”	holders of the Enerchina Shares
“Sinolink Directors” or “Offeror Directors”	the directors, including independent non-executive directors, of Sinolink
“Sinolink Share(s)”	share(s) of HK\$0.10 each in the capital of Sinolink
“Sinolink Shareholders”	holders of the Sinolink Shares
“Smart Orient”	Smart Orient Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Sinolink

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Vendors”	Pacific Sun Investment Ltd., Jayhawk China Fund (Cayman), Ltd., Neon Liberty Capital Management, LLC, and Waddell & Reed Financial Inc., all being investment funds, and which held 16,854,000, 173,146,000, 85,383,000 and 23,259,000 Enerchina Shares respectively immediately before the Acquisition
“White Form of Acceptance”	the form of acceptance and cancellation for the Option Offer
“Xin Hua Control”	Xin Hua Control Engineering Co., Ltd., a sino-foreign joint venture limited liability company established in the PRC, owned as to 41% by New China

LETTER FROM THE BOARD OF ENERCHINA



ENERCHINA HOLDINGS LIMITED

威華達控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 622)

Enerchina Directors:

Sun Qiang Chang (*Chairman*)

Ou Yaping (*Vice Chairman*)

Xiang Ya Bo

Tang Yui Man Francis

Leng Xuesong

Xu Xinghai

Xin Luo Lin*

Lu Yungang*

Davin A. MacKenzie*

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal Place of Business

in Hong Kong:

28th Floor

Vicwood Plaza

199 Des Voeux Road

Central

Hong Kong

* *Independent non-executive Enerchina Directors*

28 December 2004

*To the Enerchina Independent Shareholders
and the Optionholders*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY GENERAL OFFERS
BY
MORGAN STANLEY DEAN WITTER ASIA LIMITED
ON BEHALF OF
SINOLINK WORLDWIDE HOLDINGS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF AND
FOR CANCELLATION OF ALL OUTSTANDING OPTIONS OF
ENERCHINA HOLDINGS LIMITED
(OTHER THAN THOSE SHARES HELD BY
SINOLINK WORLDWIDE HOLDINGS LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

By way of the Announcement, the Offeror announced that, Smart Orient, a wholly owned subsidiary of the Offeror, acquired from the Vendors an additional 298,642,000 Shares, representing 13.04% of the total issued share capital of the Company as at the date of the Announcement.

* *For identification purposes only*

LETTER FROM THE BOARD OF ENERCHINA

The Acquisition Consideration was HK\$0.63 per Share which amounted to an aggregate Acquisition Consideration of HK\$188,144,460.

Immediately following the Acquisition, the Offeror and the parties acting in concert with it owned an aggregate 1,147,680,775 Shares, representing approximately 50.10% of the voting rights in the Company. Therefore, the Offeror and parties acting in concert with it are obliged under Rule 26 of the Takeovers Code to make unconditional mandatory general offers to acquire all the issued and to be issued Shares (other than those held by the Offeror and parties acting in concert with it) and for the cancellation of all Options.

The Enerchina Independent Board Committee comprising solely of Lu Yungang has been formed in accordance with Rule 2.1 of the Takeovers Code to consider and advise the Enerchina Independent Shareholders and Optionholders on the terms of the Offers. None of the other eight Enerchina Directors are considered to be independent for the purposes of giving recommendations in respect of the Offers. The reasons for this are as follows:

- (a) Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin are the common directors of the Offeror and the Company; and
- (b) In relation to the other four Enerchina Directors, they hold office as executive Enerchina Directors. Pursuant to Rule 2.8 of the Takeovers Code, an employee of an offeree company that is an associated company of the offeror is presumed not to be independent. As the Company is an associated company of the Offeror immediately prior to or after the Acquisition, these four Enerchina Directors with an executive role within the Company are not eligible to be appointed as members of the Enerchina Independent Board Committee.

Dao Heng Securities has been appointed as independent financial adviser to advise the Enerchina Independent Board Committee on the terms of the Offers.

The purpose of this document, of which this letter forms a part, is to provide you with further information on the Group and with details of the Offers. Your attention is drawn to the respective letters from the Enerchina Independent Board Committee containing its advice in respect of the Offers and Dao Heng Securities, the independent financial adviser to the Enerchina Independent Board Committee, containing its advice to the Enerchina Independent Board Committee in respect of the Offers set out on pages 21 to 22 and pages 23 to 38 of this document, respectively.

THE OFFERS

On behalf of the Offeror, Morgan Stanley is making the unconditional mandatory general offers on the following bases:

For each Share under the Share OfferHK\$0.63 in cash

For each Option under the Option Offer HK\$0.63 less
the Option Exercise Price in cash

The Share Offer and the Option Offer are not conditional on acceptances being received in respect of a minimum number.

The Share Offer

The Offeror has confirmed that Atlantic Cay International Limited and Warburg Pincus Ventures L.P., shareholders of the Company holding 404,548,779 Shares and 110,975,598 Shares respectively, have given an unconditional and irrevocable undertaking to the Offeror that they will not accept the Share Offer for the Shares respectively held by them. Each of Warburg Pincus Ventures International, L.P. and Warburg Pincus Equity Partners, L.P. is interested in 50% of the issued share capital of Atlantic Cay International Limited.

The Offeror has confirmed that Atlantic Cay International Limited and Warburg Pincus Ventures L.P. are independent of the Offeror and not parties acting in concert with the Offeror.

LETTER FROM THE BOARD OF ENERCHINA

The Option Offer

The Option Offer Price represents the difference in value between the Share Offer Price and the Option Exercise Price of the outstanding Options.

As at the Latest Practicable Date, the Company had 115,062,000 outstanding Options. The exercise periods of the Options range from 24 May 2000 to 19 October 2015 (the details of which are set out on page 87 of Appendix IV to this document). The exercise price of the Options ranges from HK\$0.44 to HK\$0.55. The exercise in full of the Options would result in the issue of an additional 115,062,000 Shares. Save for the Options, there are currently no other options, warrants or other securities issued by the Company that carry a right to subscribe for or which are convertible into Shares.

Each of the Enerchina Directors held Options as at the Latest Practicable Date, the details of which are set out in Appendix IV to this document. Each of the Enerchina Directors has given an unconditional and irrevocable undertaking to the Offeror that (1) he will not exercise the Options held by him before the end of the Offer Period (as defined in the Takeovers Code) for the Offers; and (2) he will not accept the Option Offer for the Options held by him.

INFORMATION ABOUT THE GROUP

The issued Shares are listed on Main Board of the Stock Exchange. The Group's principal business is electricity generation and supply in the PRC.

A summary of the audited consolidated results of the Group for each of the three financial years ended 31 December 2003 and the unaudited financial results of the Group for the six months ended 30 June 2004 are set out in Appendix II to this document.

Based on the register maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance, the shareholding structures of the Company immediately before the Acquisition and immediately after the Acquisition are illustrated in the following table and charts:

	Number of Shares immediately before the Acquisition	Approximate percentage shareholding in the Company immediately before the Acquisition	Number of Shares immediately after the Acquisition	Approximate percentage shareholding in the Company immediately after the Acquisition
Shareholders				
The Offeror (<i>Note 1</i>)	849,038,775	37.06%	1,147,680,775	50.10%
Warburg Pincus & Co. (<i>Note 2</i>)	515,524,377	22.50%	515,524,377	22.50%
Public	926,370,752	40.44%	627,728,752	27.40%
Total issued Shares	<u>2,290,933,904</u>	<u>100.00%</u>	<u>2,290,933,904</u>	<u>100.00%</u>

Note 1: including the interest of Smart Orient

Note 2: deemed interested in the Shares held by Atlantic Cay International Limited and Warburg Pincus Ventures L.P. (please refer to section 4(b) of Appendix IV to this document for details.)

Disposal of New China

The Company has entered into an equity transfer agreement on 16 December 2004 (the "Agreement") with Xin Hua Control, New China and an independent third party (the "Buyer") whereby the Company shall sell and the Buyer shall purchase the entire interest of the Company in New China and, amongst others, the Company shall also cancel all its existing shareholder's loan due from New China, for a cash consideration of US\$23,500,000 (the "Disposal"). Completion of the Disposal by the Buyer is subject to the fulfilment of certain conditions including but not limited to all required consents, authorisations or approvals from all other third parties that are necessary for the closing of the transaction contemplated under the Agreement shall have been received and the Buyer shall have completed its business, accounting, tax and legal due diligence analysis and review of Xin Hua Control, and are reasonably satisfied with respect to the business, properties, operations, nature of assets, liabilities, and financial condition of Xin Hua Control. Similarly, completion of the Disposal by the Company is subject to the fulfilment of certain conditions including but not limited to the performance in all material respects of all the obligations of the Buyer under the Agreement that are required to be performed by it at or prior to closing.

LETTER FROM THE BOARD OF ENERCHINA

New China owns 41% of the equity interest in Xin Hua Control. Xin Hua Control is principally engaged in the business of manufacture and sale of control systems for power plants and large scale manufacturing plants.

The Disposal is deemed to be a discloseable transaction of the Company and the Offeror pursuant to Chapter 14 of the Listing Rules. Details of the Disposal was disclosed in the announcement of the Company dated 17 December 2004.

Under Rule 4 of the Takeovers Code, once a bona fide offer has been communicated to the board of an offeree company or the board of an offeree company has reason to believe that a bona fide offer may be imminent, no action which could effectively result in an offer being frustrated, or in the shareholders of the offeree company being denied an opportunity to decide on the merits of an offer, shall be taken by the board of the offeree company in relation to the affairs of the company without the approval of the shareholders of the offeree company in general meeting.

The Executive treats the Disposal as a frustrating action of the Company under Rule 4 of the Takeovers Code.

Under Note 1 to Rule 4 of the Takeovers Code, the Executive may grant a waiver from the requirement of a shareholders' meeting if the offeror agrees to the relevant transaction. In relation to this, the Company has obtained a written consent for the Disposal from Sinolink. As such, the Company has applied to the Executive for and obtained a waiver from the requirement to obtain shareholders' approval in a general meeting of the Company in relation to the entering into the Agreement and other documents in connection with the Disposal by the Company and the completion of the Disposal.

General information

Further information in relation to the Group is set out in Appendix IV to this document.

PROPOSED CHANGES TO THE BOARD

As disclosed in the letter from Morgan Stanley set out on pages 10 to 20 of this document, the Board notes, amongst others, that the Offeror currently does not intend to make any change to the existing business (including any redeployment of fixed assets) and management of the Group and to make any substantial change of the employee structure except that the Offeror may nominate additional persons to the Board and the management in accordance with business needs.

INFORMATION ABOUT THE SINOLINK GROUP AND INTENTION OF THE OFFEROR

Your attention is drawn to the sections headed "Information on the Sinolink Group", "Reasons for the Acquisition" and "Intention of the Offeror" in the letter of Morgan Stanley as set out on pages 10 to 20 of this document. In particular, your attention is drawn to certain statements by the Offeror regarding its intention with regard to the Company and the listing status of the Company and by the Stock Exchange regarding the public float.

The Stock Exchange has stated that, if at the close of the Offers, less than 25% of the issued Shares are held by the public, or if the Stock Exchange believes that:

- **a false market exists or may exist in the trading of the Shares; or**
- **that there are insufficient Shares in public hands to maintain an orderly market;**

it will consider exercising its discretion to suspend dealings in the Shares. In this connection, it should be noted that upon completion of the Offers, there may be insufficient public float for the Shares and therefore, trading in the Shares may be suspended until a prescribed level of public float is attained.

LETTER FROM THE BOARD OF ENERCHINA

FURTHER INFORMATION

Details of the Offers were set out in the Announcement and are further set out in the letter from Morgan Stanley contained in this document as well as in Appendix I to this document and the Forms of Acceptance.

Your attention is drawn to the letter from the Enerchina Independent Board Committee to the Enerchina Independent Shareholders and the Optionholders set out on pages 21 to 22 of this document and the letter from Dao Heng Securities, the independent financial adviser to the Enerchina Independent Board Committee, set out on pages 23 to 38 of this document, which set out their respective opinion and recommendations in relation to the Offers and the principal factors considered by them in arriving at their respective opinion and recommendations.

Yours faithfully
For and on behalf of the Board
SUN QIANG CHANG
Chairman



Morgan Stanley Dean Witter Asia Limited
30th Floor, Three Exchange Square
Central
Hong Kong

28 December 2004

*To the Enerchina Independent Shareholders
and the Optionholders*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY GENERAL OFFERS
BY
MORGAN STANLEY DEAN WITTER ASIA LIMITED
ON BEHALF OF
SINOLINK WORLDWIDE HOLDINGS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
AND FOR CANCELLATION OF ALL OUTSTANDING OPTIONS OF
ENERCHINA HOLDINGS LIMITED
(OTHER THAN THOSE SHARES HELD BY SINOLINK WORLDWIDE HOLDINGS
LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

1. INTRODUCTION

On 6 December 2004, it was announced by Sinolink that Smart Orient, a wholly owned subsidiary of Sinolink, acquired from the Vendors on 3 December 2004 an additional 298,642,000 shares in Enerchina, representing 13.04% of the total issued share capital of Enerchina on the date of the Announcement. Immediately following the Acquisition, Sinolink and the parties acting in concert with it owned an aggregate 1,147,680,775 Shares, representing approximately 50.10% of the voting rights in Enerchina. Therefore, Sinolink and parties acting in concert with it are obliged under Rule 26 of the Takeovers Code to make unconditional mandatory general offers to acquire all the issued and to be issued Enerchina Shares (other than those held by Sinolink and parties acting in concert with it) and for the cancellation of all Options. Morgan Stanley is making the Offers on behalf of Sinolink.

This letter, Appendix I to this document to which this letter forms a part and the Forms of Acceptance, together set out details of the terms of the Offers and certain related information. Your attention is also drawn to the letter from the Board, the letter from the Enerchina Independent Board Committee and the letter of advice from Dao Heng Securities in relation to the Offers, as contained in this document.

2. THE ACQUISITION

On 3 December 2004, Smart Orient, a wholly owned subsidiary of Sinolink, acquired from the Vendors an additional 298,642,000 shares in Enerchina, representing 13.04% of the total issued share capital of Enerchina on the date of the Announcement.

Acquisition Consideration

The Acquisition Consideration was HK\$0.63 per Share and represented:

- (i) a premium of approximately 6.8% to the closing price of HK\$0.59 per Share quoted on the Stock Exchange on 2 December 2004, being the last trading day before suspension in trading of the Shares on the Stock Exchange prior to the Announcement;

LETTER FROM MORGAN STANLEY

- (ii) a premium of approximately 10.5% to the average closing price of HK\$0.57 per Share for the last 10 trading days before suspension in trading of the Shares on the Stock Exchange prior to the Announcement;
- (iii) a premium of approximately 18.9% to the average closing price of HK\$0.53 per Share for the last 30 trading days before suspension in trading of the Shares on the Stock Exchange prior to the Announcement;
- (iv) a premium of approximately 23.5% to the average closing price of HK\$0.51 per Share for the three months before suspension in trading of the Shares on the Stock Exchange prior to the Announcement;
- (v) a premium of approximately 28.6% to the average closing price of HK\$0.49 per Share for the six months before suspension in trading of the Shares on the Stock Exchange prior to the Announcement;
- (vi) a premium of approximately 5% of the audited consolidated net tangible asset value of the Group of approximately HK\$0.60 per Share as at 31 December 2003 (based on the audited consolidated net tangible asset value of approximately HK\$456,045,000 and 762,762,968 Shares in issue as at 31 December 2003);
- (vii) a premium of approximately 31.3% of the unaudited consolidated net tangible asset value of the Group of approximately HK\$0.48 per Share as at 30 June 2004 (based on the unaudited consolidated net tangible asset value of approximately HK\$1,092,037,000 and 2,288,288,904 Shares in issue as at 30 June 2004); and
- (viii) a premium of approximately 1.6% to the closing price of HK\$0.62 per Share quoted on the Stock Exchange on the Latest Practicable Date.

The Sinolink Directors consider that the terms of the Acquisition are fair and reasonable and in the interests of Sinolink and the Sinolink Shareholders as a whole. The Acquisition Consideration was arrived at after arm's length negotiations between the parties involved with reference to the historical trading price of Enerchina Shares.

The aggregate Acquisition Consideration was HK\$188,144,460 and was satisfied by Sinolink by cash using existing internal cash resources.

Reasons for the Acquisition

Enerchina is principally engaged in electricity generation and supply in the PRC. Its key asset is the Fuhuade Power Plant in Shenzhen which is strategically located in Dapeng Town, Shenzhen, 10 kilometres from the proposed Guangdong liquefied natural gas terminal. Enerchina recently completed an expansion of the installed capacity of the Fuhuade Power Plant from 305 megawatts to 480 megawatts and is currently undergoing further expansion to 665 megawatts. This latest expansion is expected to be completed by the first half of 2005. The fuel source of the Fuhuade Power Plant will be changed from fuel oil to liquefied natural gas, upon completion of the Guangdong liquefied natural gas terminal. This is expected to result in an increase in operational efficiency and an improvement in operating margins. Enerchina is also conducting feasibility studies further to increase the installed capacity of the Fuhuade Power Plant to 1,000 megawatts along with the on-going exercise to divest non-core business.

The Sinolink Directors are of the view that the Acquisition provides an opportunity for Sinolink to gain control of a high quality and value-enhancing asset. The Sinolink Directors believe that, in line with the economic development and growth in China, demand for electricity will continue its upward trend. In light of the commencement of full operation, the ongoing expansion and the opportunity to improve the efficiency and returns of the Fuhuade Power Plant, the Sinolink Directors believe the Acquisition gives Sinolink a good opportunity to increase its interest in Enerchina and thus enhance the Sinolink Group's earnings base. The

LETTER FROM MORGAN STANLEY

Sinolink Directors consider that the terms of the Offer to be fair and reasonable and are in the interests of Sinolink and Sinolink Shareholders as a whole.

Save pursuant to the Offers and as to maintain sufficient public float in Enerchina, Sinolink has no current intention either to increase or to decrease its shareholding in Enerchina. Sinolink Directors will review such intention from time to time.

3. THE OFFERS

The Offers

Immediately following the Acquisition, Sinolink and the parties acting in concert with it owned an aggregate 1,147,680,775 Shares, representing approximately 50.10% of the voting rights in Enerchina. Therefore, Sinolink and parties acting in concert with it are obliged under Rule 26 of the Takeovers Code to make unconditional mandatory general offers to acquire all the issued and to be issued Enerchina Shares (other than those held by Sinolink and parties acting in concert with it) and for the cancellation of all Options.

On behalf of the Offeror, Morgan Stanley is making the unconditional mandatory general offers on the following bases:

For each Share under the Share OfferHK\$0.63 in cash

For each Option under
the Option Offer HK\$0.63 less
the Option Exercise Price in cash

The Share Offer and the Option Offer are not conditional on acceptances being received in respect of a minimum number.

Comparisons of value

The Share Offer

The Share Offer Price of HK\$0.63 per Share represents:

- (i) a premium of approximately 6.8% to the closing price of HK\$0.59 per Share quoted on the Stock Exchange on 2 December 2004, being the last trading day before suspension in trading of the Shares on the Stock Exchange prior to the Announcement;
- (ii) a premium of approximately 10.5% to the average closing price of HK\$0.57 per Share for the last 10 trading days before suspension in trading of the Shares on the Stock Exchange prior to the Announcement;
- (iii) a premium of approximately 18.9% to the average closing price of HK\$0.53 per Share for the last 30 trading days before suspension in trading of the Shares on the Stock Exchange prior to the Announcement;
- (iv) a premium of approximately 23.5% to the average closing price of HK\$0.51 per Share for the three months before suspension in trading of the Shares on the Stock Exchange prior to the Announcement;

LETTER FROM MORGAN STANLEY

- (v) a premium of approximately 28.6% to the average closing price of HK\$0.49 per Share for the six months before suspension in trading of the Shares on the Stock Exchange prior to the Announcement;
- (vi) a premium of approximately 5% of the audited consolidated net tangible asset value of the Group of approximately HK\$0.60 per Share as at 31 December 2003 (based on the audited consolidated net tangible asset value of approximately HK\$456,045,000 and 762,762,968 Shares in issue as at 31 December 2003);
- (vii) a premium of approximately 31.3% of the unaudited consolidated net tangible asset value of the Group of approximately HK\$0.48 per Share as at 30 June 2004 (based on the unaudited consolidated net tangible asset value of approximately HK\$1,092,037,000 and 2,288,288,904 Shares in issue as at 30 June 2004); and
- (viii) a premium of approximately 1.6% to the closing price of HK\$0.62 per Share quoted on the Stock Exchange on the Latest Practicable Date.

The Share Offer Price is the same as the price per Share under the Acquisition.

The Share Offer Price represents the highest price paid by the Offeror, or parties acting in concert with it for the Shares in the period between the date falling six months prior to the date of the Announcement and the Latest Practicable Date.

Atlantic Cay International Limited and Warburg Pincus Ventures L.P., shareholders of Enerchina holding 404,548,779 Enerchina Shares and 110,975,598 Enerchina Shares respectively, have given an unconditional and irrevocable undertaking to Sinolink that they will not accept the Share Offer for the Enerchina Shares held respectively by them. Each of Warburg Pincus Ventures International, L.P. and Warburg Pincus Equity Partners, L.P. is interested in 50% of the issued share capital of Atlantic Cay International Limited. Atlantic Cay International Limited and Warburg Pincus Ventures L.P. are independent of Sinolink and not parties acting in concert with Sinolink.

The Option Offer

The Option Offer Price represents the difference in value between the Share Offer Price and the Option Exercise Price of the outstanding Options.

As at the Latest Practicable Date, the Company had 115,062,000 outstanding Options. The exercise periods of the Options range from 24 May 2000 to 19 October 2015 (the details of which are set out on page 87 of this document). The exercise price of the Options ranges from HK\$0.44 to HK\$0.55. The exercise in full of the Options would result in the issue of an additional 115,062,000 Shares. Save for the Options, there are currently no other options, warrants or other securities issued by the Company that carry a right to subscribe for or which are convertible into Shares.

The Share Offer Price, the Option Offer Price and the terms of the Offers have been reached after careful consideration by the directors of the Offeror, taking into account, among other things, the historical trading price of the Shares.

Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin are common directors of the Offeror and the Company. Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors hold Options in Enerchina. Each of Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors has given an unconditional and irrevocable undertaking to Sinolink that (1) he will not exercise the Options held by him before the end of the Offer Period (as defined in the Takeovers Code) for the Offers; and (2) he will not accept the Option Offer for the Options held by him.

LETTER FROM MORGAN STANLEY

Highest and lowest prices

During the period between the date falling six months prior to the date of the Announcement and the Latest Practicable Date, the highest and lowest closing prices of the Shares quoted on the Stock Exchange were HK\$0.63 per Share on 13 December 2004 and 17 December 2004, and HK\$0.37 per Share on 18 June 2004, respectively.

Total consideration

As at the Latest Practicable Date, the Company had 2,290,933,904 Shares in issue. Based on the Share Offer Price, the entire issued share capital of the Company was valued at approximately HK\$1,443,288,360. Based on the Option Offer Price, the outstanding 115,062,000 Options are valued at approximately HK\$72,489,060.

As at the Latest Practicable Date, the Offeror and the parties acting in concert with it held 1,147,680,775 Shares. Based on a total of 627,728,752 Shares held by parties other than the Offeror and parties acting in concert with it and other than Atlantic Cay International Limited and Warburg Pincus Ventures L.P., and a total of 26,900,000 Options held by the Optionholders other than Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors, the consideration payable by the Offeror pursuant to the Share Offer and the Option Offer, if both are accepted in full, will be approximately HK\$395,469,114 and HK\$5,111,000, respectively.

All of the 81,586,000 Options which can be exercised during the Offer Period (as defined in the Takeovers Code) are held by Enerchina Directors, who have each undertaken not to exercise the Options during the Offer Period (as defined in the Takeovers Code) and not to accept the Option Offer.

If none of the Enerchina Shareholders and Optionholders accepts the Share Offer and the Option Offer respectively, the aggregate consideration paid by Sinolink for statutory control of the Company will be HK\$188,144,460, being the Acquisition Consideration.

Based on a total of 627,728,752 Shares held by parties other than the Offeror and parties acting in concert with it and other than Atlantic Cay International Limited and Warburg Pincus Ventures L.P., and 26,900,000 Options held by the Optionholders other than Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors as at the Latest Practicable Date, if both the Share Offer and Option Offer are accepted in full, the aggregate consideration (including the Acquisition Consideration) will be HK\$588,724,574.

Terms of the Offers

Under the terms of the Share Offer, the Shares will be acquired by the Offeror fully paid and free from all liens, charges, pledges, encumbrances and any other third-party rights or interests of any nature whatsoever and together with all rights, benefits, and entitlements attaching and accruing thereto including the right to receive all dividends, rights and distribution declared, paid or made on or after the date of the Announcement.

Under the terms of the Option Offer, the Options together with all rights attaching thereto will be entirely cancelled and renounced.

Independent financial advice

The Offeror has obtained independent financial advice from Commerzbank that the making of the Offers is in the interests of the Offeror's shareholders.

LETTER FROM MORGAN STANLEY

Stamp Duty

The Offeror will pay seller's ad valorem stamp duty arising in connection with acceptances of the Share Offer, amounting to HK\$1.00 for every HK\$1,000 or part thereof of the consideration payable in respect of the relevant acceptance, which the Enerchina Shareholders who accept the Share Offer will be liable to pay and be deducted from the proceeds due to such Enerchina Shareholders under the Share Offer.

4. INTERESTS OF THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT IN ENERCHINA

The holdings of the Offeror and parties acting in concert with it of Shares and Options as at the date of the Announcement and the Latest Practicable Date (taking into account the shares acquired pursuant to the Acquisition) can be summarised as follows:

Name	Capacity	Number of Shares	Approximate percentage of the issued share capital
Smart Orient Investments Limited	Beneficial owner	575,792,809	25.13%
Sinolink Worldwide Holdings Limited	Beneficial owner and interest of controlled corporation	1,147,680,775 (Note)	50.10%
Asia Pacific Promotion Limited	Interest of controlled corporation	1,147,680,775 (Note)	50.10%
Mr. Ou Yaping and family	Interest of controlled corporation	1,147,680,775 (Note)	50.10%

Note: This number of Shares represents the aggregate of: (a) 571,887,966 Shares held directly by Sinolink (taking into account the Shares acquired pursuant to the Acquisition); and (b) the number of Shares in which Smart Orient Investments Limited is interested as disclosed above.

Name	Date of Grant	Exercise price (HK\$)	Exercise period From	To	Number of Options	Approximate percentage of the existing issued share capital
Mr. Ou Yaping	9 Jun 2004	0.44	9 Jun 2004	8 Jun 2014	2,288,000	0.10%
Mr. Tang Yui Man Francis	9 Jun 2004	0.44	9 Jun 2004	8 Jun 2014	22,880,000	1.00%
Mr. Xin Luo Lin	9 Jun 2004	0.44	9 Jun 2004	8 Jun 2014	2,288,000	0.10%
Mr. Davin A. MacKenzie	20 Oct 2004	0.50	20 Oct 2005	19 Oct 2015	2,288,000	0.10%
Mr. Sun Qiang Chang	24 May 2000	0.55	24 May 2000	23 May 2010	26,250,000	1.15%
Mr. Xiang Ya Bo	9 Jun 2004	0.44	9 Jun 2004	8 Jun 2014	22,880,000	1.00%
Mr. Leng Xuesong	9 Jun 2004	0.44	9 Jun 2004	8 Jun 2014	5,000,000	0.22%
Mr. Xu Xinghai	9 Jun 2004	0.44	9 Jun 2005	8 Jun 2014	666,666	0.03%
	9 Jun 2004	0.44	9 Jun 2006	8 Jun 2014	666,666	0.03%
	9 Jun 2004	0.44	9 Dec 2006	8 Jun 2014	666,668	0.03%
Mr. Lu Yungang	9 Jun 2004	0.44	9 Jun 2005	8 Jun 2014	2,288,000	0.10%

LETTER FROM MORGAN STANLEY

Save as disclosed above, no connected person (as defined in the Listing Rules) of the Offeror and no party acting in concert (as defined in the Takeovers Code) with the Offeror is a Shareholder or an Optionholder as at the Latest Practicable Date.

There was no other dealing in the Shares by the Offeror or any party acting in concert with it in the period commencing on the date falling six months immediately before the date of the Announcement and the Latest Practicable Date, save in relation to the Acquisition and the non-concert party dealings of Morgan Stanley and persons controlling, controlled by or under the same control as Morgan Stanley.

Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin are the common directors of the Offeror and the Company. Each of Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors has given an unconditional and irrevocable undertaking to Sinolink that (1) he will not exercise the Options held by him before the end of the Offer Period (as defined in the Takeovers Code) for the Offers; and (2) he will not accept the Option Offer for the Options held by him.

The Enerchina Independent Board Committee has been established to advise the Enerchina Shareholders on the terms of the Offers. Dao Heng Securities has been appointed to advise the Enerchina Independent Board Committee in relation to the Offers.

5. INFORMATION ON THE SINOLINK GROUP

The Offeror is listed on the Main Board of the Stock Exchange and is owned as to approximately 58.96% by Asia Pacific Promotion Limited as at the date of the Announcement. Asia Pacific Promotion Limited is the single largest shareholder of the Offeror and is wholly-owned by Mr. Ou and his family. The Offeror is principally engaged in: (i) property development and investment; (ii) pipeline construction, liquefied petroleum gas and natural gas distribution, transportation, storage, distribution and sales of liquefied petroleum gas and natural gas; and (iii) electricity generation and supply operations.

6. INFORMATION ON THE ENERCHINA GROUP

Enerchina Shares are listed on Main Board of the Stock Exchange. The Group's principal business is electricity generation and supply in the PRC.

The audited consolidated turnover of the Company for the two years ended 31 December 2003 were approximately HK\$115,245,000 and HK\$559,797,000 respectively. The audited net profit (loss) of the Company for the two years ended 31 December 2003 were approximately HK\$(85,697,000) and HK\$57,466,000, respectively. The audited consolidated net assets of the Company as at 31 December 2002 and 31 December 2003 were approximately HK\$280 million and HK\$661 million, respectively.

Set out below are the audited net profit (loss) recorded by the Company for the two years ended 31 December 2003:

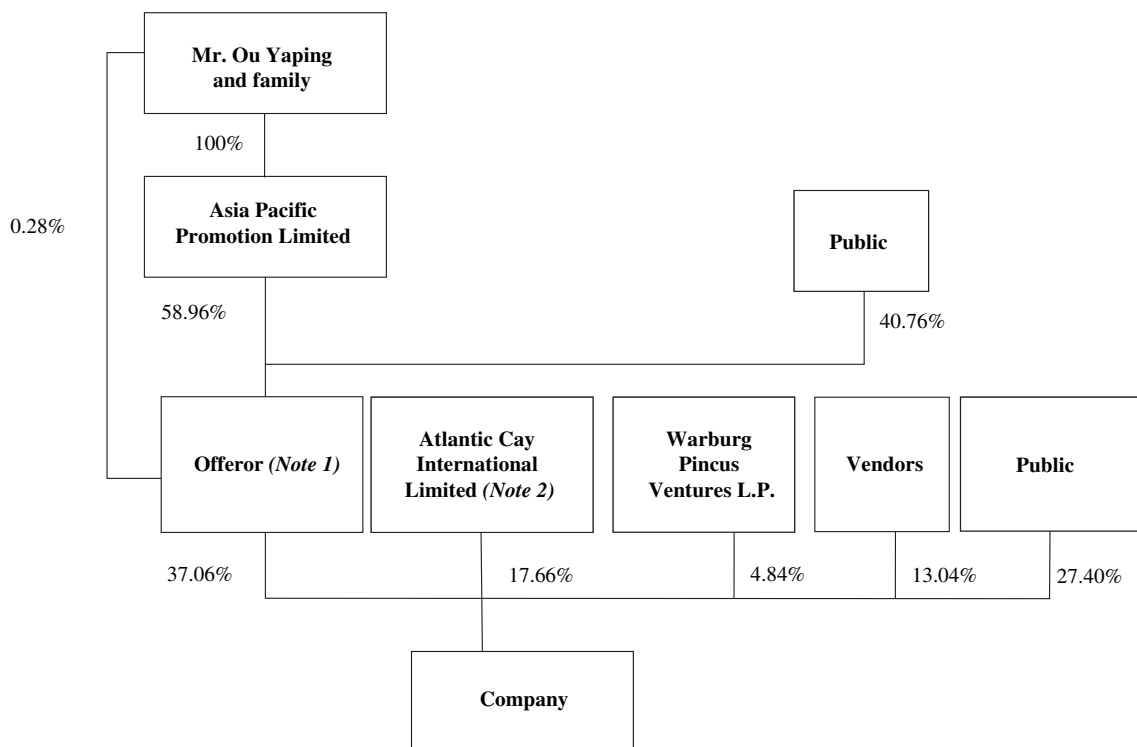
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) before taxation	98,116	(81,662)
Income taxes	(8,899)	(111)
Profit before minority interests	89,217	(81,773)
Minority interests	(31,751)	(3,924)
Net profit (loss) for the year	57,466	(85,697)

LETTER FROM MORGAN STANLEY

Based on the register maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance, the shareholding structures of the Company immediately before the Acquisition and immediately after the Acquisition are illustrated in the following table and charts:

Shareholders	Number of Shares immediately before the Acquisition	Approximate percentage shareholding in the Company immediately before the Acquisition	Number of Shares immediately after the Acquisition	Approximate percentage shareholding in the Company immediately after the Acquisition
The Offeror (<i>Note 1</i>)	849,038,775	37.06%	1,147,680,775	50.10%
Warburg Pincus & Co. (<i>Note 3</i>)	515,524,377	22.50%	515,524,377	22.50%
Public	926,370,752	40.44%	627,728,752	27.40%
Total issued Shares	<u>2,290,933,904</u>	<u>100.00%</u>	<u>2,290,933,904</u>	<u>100.00%</u>

The shareholding structure of the Company immediately before the Acquisition can be illustrated as follows:



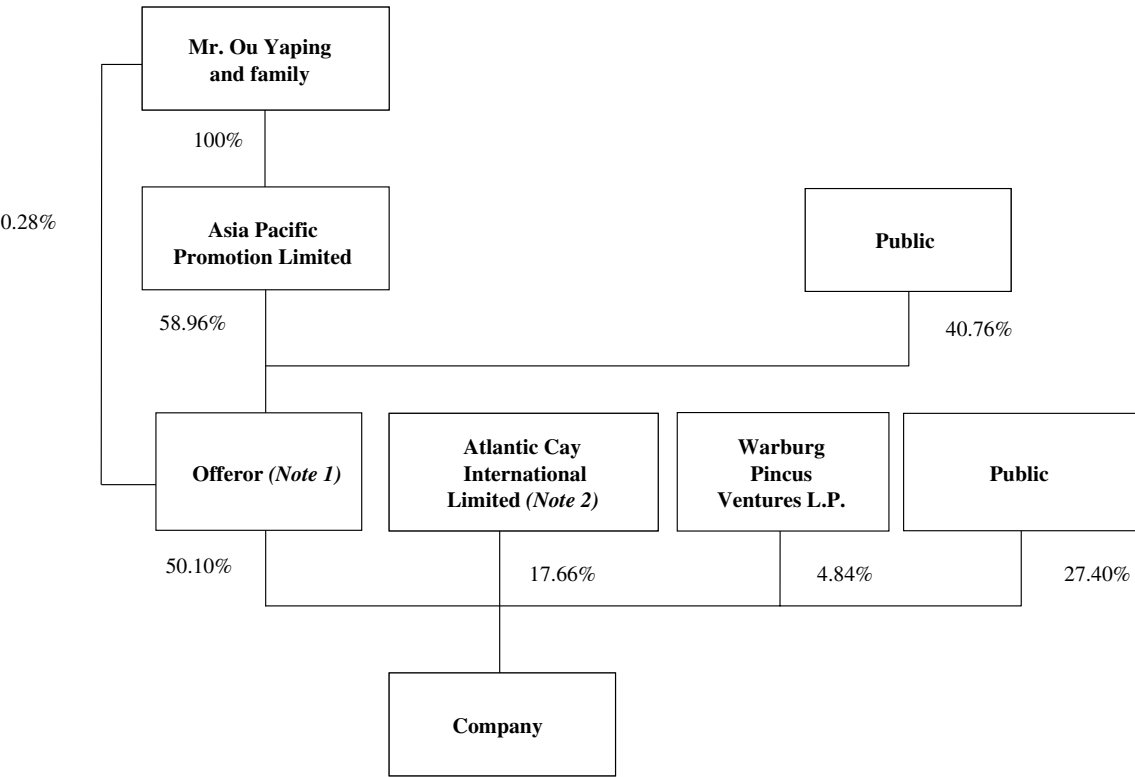
Note 1: including the interest of Smart Orient

Note 2: each of Warburg Pincus Ventures International, L.P. and Warburg Pincus Equity Partners, L.P. is interested in 50% of the issued share capital of Atlantic Cay International Limited

Note 3: deemed interested in the Shares held by Atlantic Cay International Limited and Warburg Pincus Ventures L.P. (please refer to section 4(b) of Appendix IV to this document for details)

LETTER FROM MORGAN STANLEY

The shareholding structure of the Company immediately after the Acquisition can be illustrated as follows:



Note 1: including the interest of Smart Orient

Note 2: Each of Warburg Pincus Ventures International, L.P. and Warburg Pincus Equity Partners, L.P. is interested in 50% of the issued share capital of Atlantic Cay International Limited

7. INTENTION OF THE OFFEROR

The Sinolink Directors currently do not intend to make any change to the existing business (including any redeployment of fixed assets) and management of the Enerchina Group and to make any substantial change of the employee structure except that Sinolink may nominate additional persons to the Board and the management in accordance with business needs. It is envisaged by the directors of the Offeror that the Group will continue to focus on the business of electricity generation and supply in the PRC. The Offeror intends to hold its interest in the Company as a long term investment.

Save pursuant to the Offers and as necessary to maintain sufficient public float in Enerchina, Sinolink has no current intention either to increase or to decrease its shareholding in Enerchina. Sinolink Directors will review such intention from time to time.

8. MAINTAINING THE LISTING OF THE COMPANY

It is the intention of the directors of the Offeror to maintain the listing of the Shares on the Main Board of the Stock Exchange after the close of the Offers. In this regard, the Offeror does not intend to apply any right which may be available to it to acquire compulsorily any Shares not acquired under the Share Offer after closing of the Offers, and the directors of the Offeror will undertake to the Stock Exchange that appropriate steps will be taken to ensure that not less than 25% of public float exists for the Shares.

LETTER FROM MORGAN STANLEY

The Stock Exchange has stated that, if at the close of the Offers, less than 25% of the issued Shares are held by the public, or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the Shares; or
- that there are insufficient Shares in public hands to maintain an orderly market;

it will consider exercising its discretion to suspend dealings in the Shares. In this connection, it should be noted that upon completion of the Offers, there may be insufficient public float for the Enerchina Shares and therefore, trading in the Enerchina Shares may be suspended until a prescribed level of public float is attained.

The directors of the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure sufficient public float exists in the Shares.

9. FACILITY AGREEMENT

On 6 December 2004, the Offeror as borrower entered into the Facility Agreement with the Lender in respect of a loan facility of up to HK\$460 million, secured over all the assets of the Offeror. The Facility shall be repaid in full 9 months after the first date of drawdown. The purpose of the Facility is to finance the Offers.

Morgan Stanley is satisfied that sufficient financial resources are available to the Offeror to satisfy full acceptance of the Offers. The Offers will be financed by, inter alia, the Facility and the Offeror's internal resources.

10. ACCEPTANCE AND SETTLEMENT

The Offer is made only to the Enerchina Independent Shareholders and the Optionholders and, save as disclosed above, no other person has irrevocably committed themselves to accept or not accept the Offers.

Procedures for acceptance of the Offers

To accept the Share Offer, you should complete the accompanying Pink Form of Acceptance in accordance with the instructions printed thereon, which forms part of the terms of the Share Offer.

To accept the Option Offer, you should complete the accompanying White Form of Acceptance in accordance with the instructions printed thereon, which forms part of the terms of the Option Offer.

The completed relevant Form of Acceptance(s) should then be forwarded, together with the relevant Share and/or Option certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shares and/or Options in respect of which you intend to accept the Share Offer or the Option Offer (as the case may be), by post or by hand to, in the case of a Pink Form of Acceptance, the Registrar, Computershare Hong Kong Investors Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, or in the case of a White Form of Acceptance, to the company secretary of the Company at 28th Floor, Vicwood Plaza, 199 Des Voeux Road, Central, Hong Kong as soon as practicable after you receive the relevant Form(s) of Acceptance but in any event to reach the Registrar or the company secretary of the Company (as the case may be) by no later than 4:00 p.m. on 18 January 2005. No acknowledgement of receipt of any Form(s) of Acceptance, Share or Option certificate(s), transfer receipt(s) or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

Your attention is also drawn to the further terms of the Offers as set out in Appendix I to this document and the Forms of Acceptance.

LETTER FROM MORGAN STANLEY

Settlement of the Offers

Provided that a valid Form of Acceptance and the relevant Share or Option certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order and have been received by the Registrar or the company secretary of the Company (as the case may be) on or before 4:00 p.m. on 18 January 2005, a cheque for the amount due to the Enerchina Independent Shareholder in respect of the Shares or to the Optionholders in respect of the Options tendered by him/her under the Share Offer and/or the Option Offer, less seller's ad valorem stamp duty (if any) payable by him/her, will be despatched to the Enerchina Independent Shareholders and/or the Optionholders by ordinary post at his/her own risk within 10 days of the date on which all relevant documents are received by the Registrar or the company secretary of the Company (as the case may be) to render such acceptance complete and valid.

In order for beneficial owners of Shares, whose investments are registered in nominee names, to accept the Share Offer, it is essential that they provide instructions to their nominee agent of their intentions with regards to the Share Offer. To ensure equality of treatment of all Enerchina Independent Shareholders and/or Optionholders, those registered Enerchina Independent Shareholders and/or Optionholders who hold Shares or Options as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately.

The attention of the Enerchina Independent Shareholders and the Optionholders with registered addresses outside Hong Kong is drawn to paragraph (1) in section 5 of Appendix I to this document.

11. GENERAL

Posting

All documents and remittances sent by or to the Enerchina Independent Shareholders and/or the Optionholders through the post will be sent by or to them at their own risk. Such documents and remittances will be sent to the Enerchina Independent Shareholders and/or the Optionholders at their respective addresses as stated on the relevant Form(s) of Acceptance or if no such address is stated, as they appear in the register of members of Enerchina or, in the case of joint Enerchina Independent Shareholders, to the Enerchina Independent Shareholder whose name appears first in such register of members, as applicable. None of Enerchina, the Offeror and Morgan Stanley or any of their respective directors or any other person involved in the Offers will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

Taxation and Independent Advice

You are recommended to consult your own professional adviser if you are in any doubt as to the taxation implications of accepting or rejecting the Offers. It is emphasised that none of the Offeror, or Morgan Stanley or any of their respective directors or affiliates or any other person involved in the Offers accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of their acceptance or rejection of the Offers.

12. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices, which form part of this document.

Yours faithfully
For and on behalf of
Morgan Stanley Dean Witter Asia Limited
Sheldon Trainor
Managing Director



ENERCHINA HOLDINGS LIMITED

威華達控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 622)

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Principal Place of Business
in Hong Kong:*

28th Floor
Vicwood Plaza
199 Des Voeux Road
Central
Hong Kong

28 December 2004

*To the Enerchina Independent Shareholders
and the Optionholders*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY GENERAL OFFERS
BY
MORGAN STANLEY DEAN WITTER ASIA LIMITED
ON BEHALF OF
SINOLINK WORLDWIDE HOLDINGS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF AND
FOR CANCELLATION OF ALL OUTSTANDING OPTIONS OF
ENERCHINA HOLDINGS LIMITED
(OTHER THAN THOSE SHARES HELD BY
SINOLINK WORLDWIDE HOLDINGS LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

I refer to the composite offer and response document dated 28 December 2004 issued jointly by the Company and the Offeror (the “Document”) of which this letter forms a part. Terms used in this letter shall have the same meaning as those defined in the Document, unless otherwise specified.

I have been appointed to form the Enerchina Independent Board Committee to consider the terms of the Offers and to make recommendation to the Enerchina Independent Shareholders and Optionholders in respect of the Offers. Dao Heng Securities has been appointed as the independent financial adviser to advise me in respect of the terms of the Offers.

I wish to draw your attention to the letter from the Board and the letter from Morgan Stanley set out on pages 5 to 9 and pages 10 to 20 of the Document respectively which contain (amongst other things) details of the Offers and other relevant information on the Group and the Offeror. Please also refer to the letter from Dao Heng Securities set out on pages 23 to 38 of the Document for its advice and recommendation to me in relation to the terms of the Offers.

* For identification purposes only

LETTER FROM THE ENERCHINA INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

Having taken into consideration the principal factors considered by, and the recommendation of, Dao Heng Securities with respect to the Offers, I consider that the terms of the Offers are fair and reasonable so far as the Enerchina Independent Shareholders and Optionholders are concerned and I would recommend the Enerchina Independent Shareholders and Optionholders to accept the Offers.

Yours faithfully,

Enerchina Independent Board Committee

Lu Yungang

Independent non-executive Enerchina Director

LETTER FROM DAO HENG SECURITIES

The following is the text of the letter of advice to the Enerchina Independent Board Committee from Dao Heng Securities for inclusion in this document.



28 December 2004

To the Enerchina Independent Board Committee
of Enerchina Holdings Limited
28/F., Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

Dear Sirs,

**Unconditional mandatory general offers by
Morgan Stanley Dean Witter Asia Limited
on behalf of Sinolink Worldwide Holdings Limited
to acquire all the issued shares of and
for cancellation of all outstanding options of
Enerchina Holdings Limited
(other than those shares held by
Sinolink Worldwide Holdings Limited
and parties acting in concert with it)**

I. INTRODUCTION

We refer to our engagement by the Company as independent financial advisor to advise the Enerchina Independent Board Committee with respect to the terms of the Offers, details of which are contained in the letter from Morgan Stanley in the composite document ("Composite Document") issued by Sinolink Worldwide Holdings Limited and Enerchina Holdings Limited to the Enerchina Independent Shareholders and the Optionholders on 28 December 2004 of which this letter forms part. Terms defined in the Composite Document bear the same meanings herein unless the context otherwise requires. We recommend the Enerchina Independent Board Committee to advise the Enerchina Independent Shareholders and the Optionholders to read the Composite Document carefully before they decide what action to take in response to the Offers.

The Enerchina Independent Board Committee comprising solely of Mr. Lu Yungang has been formed in accordance with Rule 2.1 of the Takeovers Code to consider and advise the Enerchina Independent Shareholders and the Optionholders on the terms of the Offers. None of the other eight Enerchina Directors are considered to be independent for the purposes of giving recommendations in respect of the Offers. The reasons for this are as follows:

- (a) Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin are the common directors of the Offeror and the Company; and
- (b) in relation to the other four Enerchina Directors, they hold office as executive Enerchina Directors. Pursuant to Rule 2.8 of the Takeovers Code, an employee of an offeree company that is an associated company of the offeror is presumed not to be independent. As the Company is an associated company of the Offeror immediately prior to or after the Acquisition, these four Enerchina Directors with an executive role within the Company are not eligible to be appointed as members of the Enerchina Independent Board Committee.

LETTER FROM DAO HENG SECURITIES

In formulating our recommendations, we have relied on the accuracy of the information and representations contained in the Composite Document, which have been provided by the Offeror Directors and the Enerchina Directors and have assumed that all information and representations made or referred to in the Composite Document are true and accurate in all material respect. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Offeror Directors and the Enerchina Directors and have been advised by the Offeror Directors and the Enerchina Directors that no material facts have been omitted from the information provided and referred to in the Composite Document. We consider that we have reviewed sufficient information to reach an informed view and to justify relying on the accuracy of the information contained in the Composite Document and to provide a reasonable basis for our advice. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group.

We have not considered the tax consequences on the Enerchina Independent Shareholders and the Optionholders of their acceptances or non-acceptances of the Offers since these are particular to their own individual circumstances. In particular, the Enerchina Independent Shareholders and the Optionholders who are resident outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position with regard to the Offers and, if in any doubt, should consult their own professional advisers.

II. BACKGROUND

1. Acquisition

On 3 December 2004, Smart Orient, a wholly owned subsidiary of the Offeror, had acquired an additional 298,642,000 Shares, representing approximately 13.04% of the total issued share capital of the Company as at the date of Announcement, from four independent parties at an aggregate consideration of HK\$188,144,460, or HK\$0.63 per Share. Immediately following the Acquisition, the Offeror and the parties acting in concert with it owned approximately 50.10% of the voting rights in the Company. Therefore, the Offeror and parties acting in concert with it are obliged under Rule 26 of the Takeovers Code to make unconditional mandatory general offers to acquire all the issued and to be issued Shares (other than those held by the Offeror and parties acting in concert with it) and for the cancellation of all Options.

2. The Offers

The Offers have been made to the Enerchina Independent Shareholders and the Optionholders by Morgan Stanley on behalf of the Offeror on the following basis:

For each Share under the Share OfferHK\$0.63 in cash
For each Option under the Option Offer HK\$0.63 less the Option Exercise Price in cash

The Share Offer and the Option Offer are not conditional on acceptances being received in respect of a minimum number. The Share Offer Price is the same as the price per Share under the Acquisition. The Share Offer Price represents the highest price paid by the Offeror or parties acting in concert with it for the Shares within six months prior to the Announcement.

Atlantic Cay International Limited and Warburg Pincus Ventures L.P., shareholders of the Company holding 404,548,779 Shares and 110,975,598 Shares respectively, have given an unconditional and irrevocable undertaking to the Offeror that they will not accept the Share Offer for the Shares respectively held by them. Each of Warburg Pincus Ventures International, L.P. and Warburg Pincus Equity Partners, L.P. is interested in 50% of the issued share capital of Atlantic Cay International Limited. Atlantic Cay International Limited and Warburg Pincus Ventures L.P. are independent of the Offeror and not parties acting in concert with the Offeror.

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The Option Offer Price represents the difference in value between the Share Offer Price and the Option Exercise Price of the outstanding Options. As at the Latest Practicable Date, the Company has 115,062,000 outstanding Options. The exercise periods of the Options range from 24 May 2000 to 19 October 2015 (the details of which are set out on page 87 of the Composite Document). The exercise price of the Options ranges from HK\$0.44 to HK\$0.55. The exercise in full of the Options would result in the issue of an additional 115,062,000 Shares. Save for the Options, there are currently no other options, warrants or other securities issued by the Company that carry a right to subscribe for or which are convertible into Shares.

Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin are common directors of the Offeror and the Company. Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors hold Options in the Company. Each of Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors has given an unconditional and irrevocable undertaking to the Offeror that (1) he will not exercise the Options held by him before the end of the Offer Period (as defined in the Takeovers Code) for the Offers; and (2) he will not accept the Option Offer for the Options held by him.

3. Disposal of New China

As stated in the letter from the Board of Enerchina, the Company has entered into an equity transfer agreement on 16 December 2004 (the “Agreement”) with Xin Hua Control, New China and an independent third party (the “Buyer”) whereby the Company shall sell and the Buyer shall purchase the entire interest of the Company in New China and, amongst others, the Company shall also cancel all its existing shareholder’s loan due from New China, for a cash consideration of US\$23,500,000 (the “Disposal”). New China owns 41% of the equity interest in Xin Hua Control. Xin Hua Control is principally engaged in the business of manufacture and sale of control systems for power plants and large scale manufacturing plants. The Disposal is deemed to be a discloseable transaction of the Company and the Offeror pursuant to Chapter 14 of the Listing Rules. Details of the Disposal were set out in the announcement of the Company dated 17 December 2004.

Under Rule 4 of the Takeovers Code, once a bona fide offer has been communicated to the board of an offeree company or the board of an offeree company has reason to believe that a bona fide offer may be imminent, no action which could effectively result in an offer being frustrated, or in the shareholders of the offeree company being denied an opportunity to decide on the merits of an offer, shall be taken by the board of the offeree company in relation to the affairs of the company without the approval of the shareholders of the offeree company in general meeting. The Executive treats the Disposal as a frustrating action of the Company under Rule 4 of the Takeovers Code. Under Note 1 to Rule 4 of the Takeovers Code, the Executive may grant a waiver from the requirement of a shareholders’ meeting if the offeror agrees to the relevant transaction. In relation to this, the Company has obtained a written consent for the Disposal from the Offeror. As such, the Company has applied to the Executive for and obtained a waiver from the requirement to obtain shareholders’ approval in a general meeting of the Company in relation to the entering into the Agreement and other documents in connection with the Disposal by the Company and the completion of the Disposal.

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III. PRINCIPAL FACTORS CONSIDERED RELATING TO THE SHARE OFFER

In arriving at our recommendation and advice to the Enerchina Independent Board Committee with regard to the terms of the Share Offer, we have considered the following principal factors:

1. Price performance and trading volume of the Shares

(a) The Share price performance

The Share Offer Price is HK\$0.63 per Share. Table 1 sets out the average closing prices of the Shares and the premiums/discounts that the Share Offer Price represents thereto during the following periods:

Table 1: Premium/discount of the Share Offer Price over/to the average Share closing price in different periods

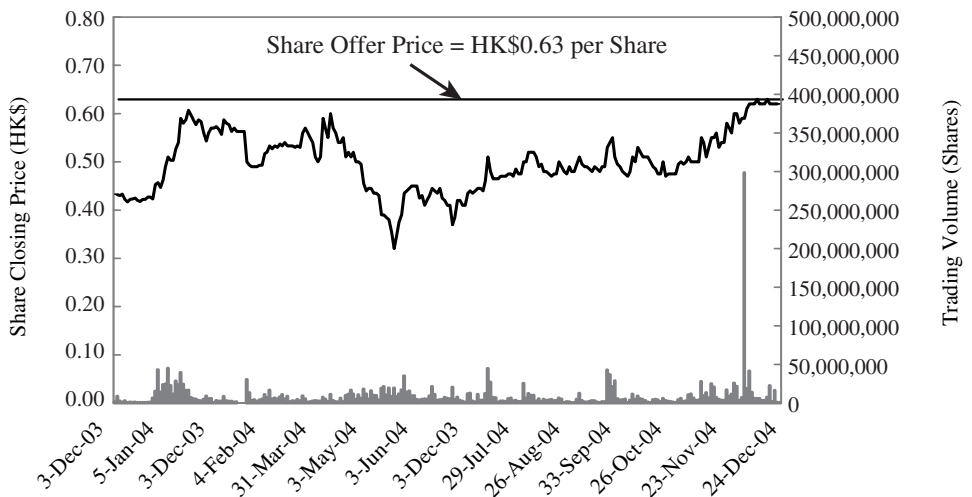
	Average closing price (HK\$)	Premium/ (discount) of Share Offer Price over average closing price in different periods (%)
On 2 December 2004, being the last trading day prior to the suspension of trading in the Shares on the Stock Exchange at 9:34 a.m. on 3 December 2004 (“Suspension”) pending the publish of the Announcement	0.590	6.8
For the 10 consecutive full trading days up to and including 2 December 2004	0.569	10.7
For the one month ended on 2 December 2004	0.545	15.6
For the three months ended on 2 December 2004	0.513	22.8
For the six months ended on 2 December 2004	0.487	29.4
For the 12 months ended on 2 December 2004 (“One-year Period”)	0.493	27.8
On the Latest Practicable Date	0.620	1.6
For the period between 7 December 2004 (being the first trading day after the Suspension) and the Latest Practicable Date (“Latest Period”)	0.621	1.4

The Share Offer Price represents a premium of approximately 6.8% over the Share closing price on 2 December 2004, being the last trading day before the Suspension. The Share Offer Price represents premiums ranging from approximately 10.7% to 29.4% over the average closing prices of the Shares for the 10 days ended 2 December 2004 and one month, three months, six months and one year ended 2 December 2004 respectively.

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Chart 1 below shows the daily closing price and the trading volume of the Shares on the Stock Exchange during the period commencing on 3 December 2003, being the date of one year prior to 2 December 2004, and ending on the Latest Practicable Date:

Chart 1: Closing price and trading volume of the Shares during the One-year Period and the Latest Period



Source: Infocast

As shown in Chart 1, the Shares had been traded below the Share Offer Price of HK\$0.63 per Share throughout the One-year Period. The highest and lowest Share prices as quoted on the Stock Exchange for the One-year Period were HK\$0.607 recorded on 16 January 2004 and HK\$0.320 recorded on 17 May 2004 respectively. The Share Offer Price represents a premium of approximately 3.8% and 96.9% over these highest and lowest Share closing prices respectively.

Trading of the Shares was suspended during the period from 3 to 6 December 2004 pending the release of the Announcement. Closing price per Share of 7 December 2004, being the first trading day after resumption of trading of the Shares, was HK\$0.610 per Share, over which the Share Offer Price represents a premium of approximately 3.3%. During the Latest Period, the highest and lowest Share prices as quoted on the Stock Exchange were HK\$0.630 recorded on 13 and 17 December 2004 and HK\$0.610 recorded on 7 December 2004 respectively. The Share Offer Price is equivalent to the highest Share price and represents a premium of approximately 3.3% over the lowest Share price during the Latest Period.

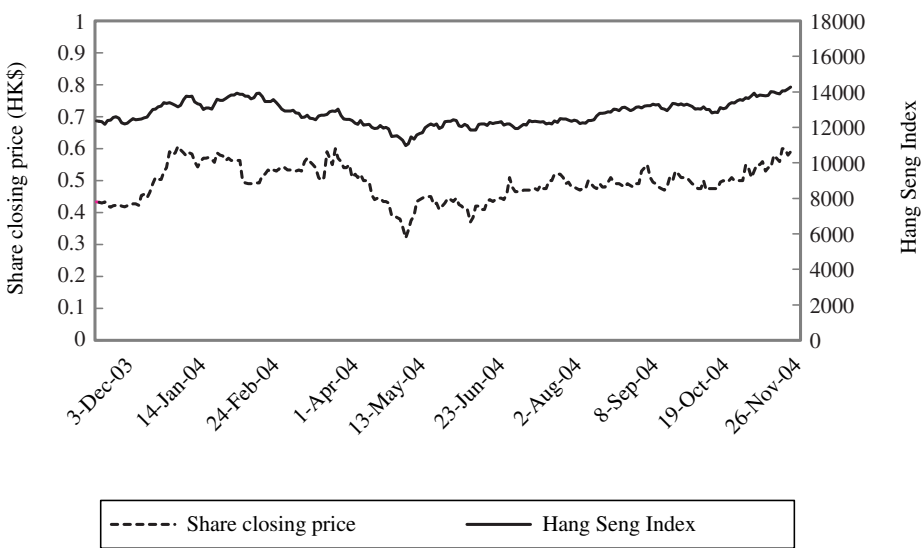
As shown in Chart 1, the Share closing price showed some fluctuations during the One-year Period, which surged up to HK\$0.607 per Share, representing the highest Share price during the One-year Period, on 16 January 2004, and then hovered between HK\$0.500 and HK\$0.600 until 8 April 2004. Since then, it dropped gradually to the lowest Share price during the One-year Period at HK\$0.320 on 17 May 2004 and the Share price had increased gradually thereafter during the rest of the One-year Period. We have reviewed the announcements made by the Company during the One-year Period in order to look for the reasons for such fluctuations. We noted that during the upsurge in Share price at the end of December 2003 and the first half of January 2004, the Company issued two announcements on 29 December 2003 and 5 January 2004 respectively to notify the public that the directors of the Company had noted the then recent increases in the price and trading volume of the Shares and stated that save for (a) completion of the rights issue of the Shares, which was fully subscribed as announced on 23 December 2003; (b) further expansion of its power plant in Shenzhen; and (c) the fact that the relevant government authority granted an in-principle approval to its power plant in Shenzhen, they were not aware of any reason of such increases.

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Since 8 April 2004, the Share price plummeted to HK\$0.32, the lowest Share closing price during the One-year Period, on 17 May 2004. The Company issued (a) an announcement on 16 April 2004 in relation to the results of an open offer that the aggregate number of offer Shares applied for represents approximately 94.9% of the total number of offer Shares available under the open offer; and (b) a results announcement dated 21 April 2004 for the year ended 31 December 2003 that the Group became profitable and recorded a net profit of approximately HK\$57.5 million as opposed to a net loss of approximately HK\$85.7 million in the previous year. Since then, the Share closing price increased gradually during the rest of the One-year Period.

We have also examined the Share price against the Hang Seng Index to assess whether the trend of the Share price was influenced by the overall performance of the market during the One-year Period.

Chart 2: Closing Share price and Hang Seng Index during the One-year Period



Source: Infocast

We noted from Chart 2 that the trend of the Share closing price during the One-year Period is generally in line with the Hang Seng Index. Having looked into the announcements published by the Company, we consider that the fluctuations of the Share closing price since 8 April 2004 were largely in line with the trend of Hang Seng Index during the One-year Period.

Given the above, in particular that the Shares were traded below the Share Offer Price throughout the One-year Period and, together with the factors considered below, we consider that the Share Offer Price is fair and reasonable.

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(b) Trading volume of the Shares

The following table sets out the trading volume of the Shares during the period from 3 December 2003 to the Latest Practicable Date:

Table 2: Trading volume of the Shares during the One-year Period and the Latest Period

Month/Period	Total trading volume for the month/period (Shares)	Average daily trading volume for the month/period (Shares)	Percentage of average daily trading volume for the month/period to total issued share capital ⁽¹⁾ (%)	Percentage of average daily trading volume for the month/period to public float ⁽²⁾ (%)
2003				
December (3-31)	108,012,673	5,684,878	0.25	0.91
2004				
January	322,138,032	16,954,633	0.74	2.70
February	93,718,298	4,685,915	0.20	0.75
March	133,500,433	5,804,367	0.25	0.92
April	146,015,801	7,685,042	0.34	1.22
May	270,682,178	13,534,109	0.59	2.16
June	159,520,410	7,596,210	0.33	1.21
July	180,330,707	8,587,177	0.37	1.37
August	109,220,015	4,964,546	0.22	0.79
September	186,136,752	8,863,655	0.39	1.41
October	72,247,625	3,802,507	0.17	0.61
November	250,356,191	11,379,827	0.50	1.81
December (1-2)	10,748,150	5,374,075	0.23	0.86
The Latest Period	150,335,845	10,738,275	0.47	1.71

Source: Infocast

Notes: (1) Based on 2,290,933,904 Shares in issue as at the Latest Practicable Date.

(2) Based on 627,728,752 Shares in public hands as at the Latest Practicable Date.

As can be seen in Table 2, the trading volume of the Shares on the Stock Exchange during the One-year Period was relatively thin with the respective average daily trading volume ranging from approximately 0.17% to 0.74% of the Shares in issue and ranging from approximately 0.61% to 2.70% to the public float on the Latest Practicable Date.

After the publication of the Announcement in relation to the Offers, trading in the Shares became relatively active during the Latest Period with the average daily trading volume thereof representing approximately 0.47% to the total Shares in issue as at the Latest Practicable Date whilst the Shares were traded close to the Share Offer Price throughout the Latest Period. Such active trading in the Shares may reflect the market response to the Offers. However, Enerchina Independent Shareholders should note that it is uncertain whether such active trading in the Latest Period could sustain and they are able to dispose of their Shares at a price higher than the Share Offer Price after the close of the Offers.

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2. Net asset value per Share

The audited consolidated net tangible asset value (“NTA”) of the Company as at 31 December 2003 was approximately HK\$456.0 million or approximately HK\$0.60 per Share (based on 762,762,968 Shares then in issue). The Share closing price on 2 December 2004, being the last full trading day prior to the Suspension, was HK\$0.59, representing a discount of approximately 1.7% to the NTA per Share as at 31 December 2003, while the Share Offer Price was HK\$0.63, representing a premium of approximately 5.0% over the NTA per Share.

Based on the unaudited NTA of the Company as at 30 June 2004 of approximately HK\$1,092.0 million or approximately HK\$0.48 per Share (based on the 2,288,288,904 Shares then in issue), the closing price on 2 December 2004 of HK\$0.59 represents a premium of approximately 22.9% over the NTA per Share as at 30 June 2004 while the Share Offer Price of HK\$0.63 represents a premium of approximately 31.3% to the NTA per Share.

We have considered a comparison of listed companies in Hong Kong to provide a general reference for the Company’s NTA. We have examined a total of five companies (“Comparable Companies”) which are principally engaged in power generation in the PRC. We consider that the business nature of the Comparable Companies are generally in line with that engaged by the Group. The following table summarised our findings:

Table 3: Premium/discount of market price over/to latest published NTA of the Company and the Comparable Companies

Stock code	Company name	Premium/ (Discount) of share price over/to NTA ⁽¹⁾ (%)	Market capitalisation ⁽²⁾ (HK\$ million)
622	The Company (based on the Share Offer Price)		
	• based on the latest audited NTA per Share as at 31 December 2003 and the number of Shares then in issue	5.0	1,350.3
	• based on the latest published NTA per Share as at 30 June 2004 and the number of Shares then in issue	31.3	
570	Wing Shan International Limited	(59.9)	332.1
836	China Resources Power Holdings Company Limited	65.0	15,708
902	Huaneng Power International, Inc.	125.2	18,638
991	Datang International Power Generation Co., Ltd.	114.2	8,870
1071	Huadian Power International Corporation Limited	56.8	3,828
	Average	60.3	

Note: (1) Based on the information disclosed in the respective latest published balance sheets of the Comparable Companies and the respective share closing price on 2 December 2004.

(2) Based on the share closing price on 2 December 2004.

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As at 2 December 2004, being the last full trading day before Suspension, apart from Wing Shan International Limited, the shares of which were traded at discount to its NTA, all of the rest had their share prices traded at premiums ranging from approximately 56.8% to 125.2% over their latest published NTA while the Share Offer Price represents a premium of approximately 31.3% over the NTA of the Group based on its unaudited consolidated balance sheet as at 30 June 2004, which is the lowest among those of the Comparable Companies excluding Wing Shan International Limited. Since the Share Offer Price is determined with reference to the historical trading price of the Shares, we have looked into the financial performance of the Company and the Comparable Companies as well as their market capitalisation as at 2 December 2004 to assess whether there is any correlation between the aforementioned factors and the share price performance.

Most of the Comparable Companies reported stable net profit during the past five years except that (i) Wing Shan International Limited recorded a net loss for its latest financial year; and (ii) China Resources Power Holdings Company Limited, listed in November 2003, recorded a net loss of approximately HK\$2.2 million for the year ended 31 December 2001. As can be seen in the above table, in general, the larger the market capitalisation the higher would be the premium over the NTA of the Comparable Companies represented by their respective share price. It appears that the relatively low premium of the Share price over the Group's NTA might be due to the fact that the Group had an unstable profit record that it became profitable in FY2003 following loss-making in three consecutive financial years (details of our discussion have been set out in the paragraph headed "4. Financial Performance" below) and the aggregate value of the Shares is relatively small as compared with those of the Comparable Companies except for Wing Shan International Limited.

Based on the above, together with the fact that the Shares had been traded below the Share Offer Price of HK\$0.63 per Share during the entire One-year Period and the Share Offer Price was made reference to the Acquisition Consideration, which was arrived at after arm's length negotiations between the parties involved with reference to the historical trading price of the Shares, we consider the Share Offer Price to be acceptable.

3. Price-to-earnings ratio and dividend yield

In order to assess the reasonableness of the Share Offer Price, we have also made reference to the price-to-earnings ratios ("PER") and dividend yields of the Comparable Companies, the results of which are summarised as follows:

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Table 3: PERs and dividend yields of the Company and the Comparable Companies

Stock code	Company name (times)	PER ⁽¹⁾ (%)	Dividend yield ⁽¹⁾
622	The Company		
	• based on the closing price on 2 December 2004	3.4	N/A
	• based on the Share Offer Price	3.7	N/A
570	Wing Shan International Limited	N/A	3.8
836	China Resources Power Holdings Company Limited	20.2	N/A
902	Huaneng Power International, Inc. ⁽²⁾	14.4	3.9
991	Datang International Power Generation Co., Ltd.	18.8	2.7
1071	Huadian Power International Corporation Limited	14.5	1.2
	Average	17.1	2.9

Notes:

- (1) PERs and dividend yields are calculated based on the information disclosed in the respective latest published audited profit and loss accounts of the Company and the Comparable Companies and the respective share closing price on 2 December 2004.
- (2) PER and dividend yield are calculated based on adjusted earnings per share and dividend per share as a result of bonus issue and conversion of capital surplus.

For the year ended 31 December 2003, the audited consolidated net profit of the Company amounted to approximately HK\$57.5 million, representing earnings per Share of approximately 17.23 cents. Based on the Share closing price on 2 December 2004, being the last trading day before Suspension, PER of the Company is approximately 3.4 times, while it is approximately 3.7 times based on the Share Offer Price. We note that one of the Comparable Companies has no PER appraised as loss had been recorded for its past financial year and the PERs of the remaining four Comparable Companies range from approximately 14.4 times to 20.2 times with an average of approximately 17.1 times. As discussed in the paragraph headed “2. Net asset value per Share” above, the underperformance of the Share price might be due to the fact that (i) the Group had an unstable profit record that it became profitable in FY2003 following loss-making in three consecutive financial years (details of our discussion have been set out in the paragraph headed “4. Financial Performance” below) and (ii) the aggregate value of the Shares is relatively small as compared with those of the Comparable Companies except for Wing Shan International Limited.

For the year ended 31 December 2003, no dividend was declared by the Company. We note that four of the Comparable Companies have dividend yields ranging from approximately 1.2% to 3.9% with an average of approximately 2.9% and the remaining Comparable Company has no dividend declared for its past financial year.

Taking into account the above factors including the fact that no dividend was declared by the Company which suggests that both operating performance and dividend yield of most of the Comparable Companies are better than those of the Company and the operating environment of the Group as discussed in the paragraph headed “5. Operating environment of the Group” below, we consider that the Share Offer Price to be acceptable.

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4. Financial performance

The Group's principal business is electricity generation and supply in the PRC. The following table summarises the Group's audited/unaudited consolidated turnover, operating profit/(loss) and profit/(loss) attributable to Shareholders for the three financial years ended 31 December 2003 and the six months ended 30 June 2004:

Table 4: The audited consolidated results for the three years ended 31 December 2003 and the unaudited consolidated results for the six months ended 30 June 2004 of the Group

	Audited consolidated results for the year ended 31 December			Unaudited consolidated results for the six months ended 30 June 2004
	2001 ("FY2001") HK\$'000	2002 ("FY2002") HK\$'000	2003 ("FY2003") HK\$'000	("Interim Period") HK\$'000
Turnover	670	115,245	559,797	364,675
Profit/(loss) from operations	(57,756)	(72,817)	116,538	59,413
Profit/(loss) attributable to Shareholders	<u>(141,890)</u>	<u>(85,697)</u>	<u>57,466</u>	<u>29,868</u>

The Group recorded a consolidated turnover of approximately HK\$0.7 million for FY2001, which decreased by approximately HK\$106.7 million as compared to that of the year ended 31 December 2000 ("FY2000"). It is stated in the annual report of 2001 that the reduction in turnover was primarily due to the disposal of the apparel retailing business in FY2000 which contributed approximately HK\$105.4 million to the turnover of the Group in FY2000. Therefore, turnover for FY2001 represents the rental income received from its investment properties. The total operating expenses of the Group was also reduced by 77% as a result of the disposal of its retailing business in FY2000, resulting in an operating loss in FY2001 of approximately HK\$57.8 million. The net loss for FY2001 amounted to approximately HK\$141.9 million as opposed to that in FY2000 of HK\$98.2 million and such increase was mainly due to the fact that the impairment loss of associates of approximately HK\$41.6 million was incurred in FY2001 while there was nil in FY2000.

In May 2002, the Group acquired a 70% interest in Shenzhen Fuhuade Electric Power Company Limited ("Fuhuade") which operates the Dapeng Power Plant at total consideration of HK\$360,400,000. Concurrent with the acquisition, Silver Grant International Industries Limited, one of the then substantial Shareholders who was interested in 30.38% of the Company, disposed of most of its interest in the Company to the Offeror. After the disposal, the Offeror became the largest shareholder holding 29.99% interest in the Company.

For FY2002, the Group's turnover increased significantly 171 times over that of approximately HK\$0.7 million for FY2001 to approximately HK\$115.2 million. According to the Company's annual report of FY2002, such increase was primarily derived from the new power generation business of the Group (i.e. Fuhuade) and the power plant contributed net profit of approximately HK\$8.9 million to the Group. It is stated in annual report 2002 that for those investments that disposal opportunities proved unavailable, full provisions were made. During FY2002, the Group's impairment losses of investment securities and investment

in an option and loss arising from investment properties amounted, in aggregate, to approximately HK\$67.5 million, which heightened the operating loss in FY2002 as compared to that in FY2001 from approximately HK\$57.8 million to HK\$72.8 million. It is stated in the annual report 2002 that 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. Nevertheless, the net loss for the year reduced by approximately 39.6% as compared with that in FY2001 to approximately HK\$85.7 million as there was no impairment loss of associates in FY2002 as opposed to that of HK\$41.6 million in FY2001.

The Group recorded a turnover amounted to approximately HK\$559.8 million for FY2003, representing an increase of approximately 385.7% as compared to that of FY2002. As stated in the Company's annual report for FY2003, the Group sold 952.1 million kWh on grid, representing an increase of approximately 2.7 times as compared to the corresponding period last year. The increase was primarily contributed from the strong market demand in power and from the expanded capacity of Fuhuade. In May 2003, Fuhuade completed the expansion and was currently equipped with a total installed capacity of 305,000 kilowatt, an increase of 3.3 times over the previous capacity. Given no impairment losses incurred for FY2003, the Group recorded operating profit of approximately HK\$116.5 million and became profitable following net losses for the three consecutive financial years with profit attributable to Shareholders of approximately HK\$57.5 million.

As compared with that of the six months ended 30 June 2003, the Group's unaudited turnover for the Interim Period increased by approximately 94.2% to approximately HK\$364.7 million and the unaudited consolidated profit attributable to Shareholders for the Interim Period increased by approximately 489.5% to approximately HK\$29.9 million for the Interim Period. It is stated in the interim report of the Company for the six months ended 30 June 2004 ("Interim Report") that despite the fact that the PRC government introduced macroeconomic measures to adjust its economy, the growth of both power generation and consumption remained high in the PRC and the increase in turnover mainly contributed by the full six months period operation of the second combined cycle generating unit which commenced commercial production in May 2003.

As illustrated above, the Group's financial performance was in doldrums during the period from FY2000 to FY2002 with losses attributable to Shareholders for three consecutive financial years. Nevertheless, the Group successfully turned into profitable in FY2003 and continued in the first half of FY2004. According to the Interim Report, in order to meet the tremendous demand for electricity, the Group continued 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. As advised by the Enerchina Directors, this was the third combined cycle generating unit of the Group, which commenced production in September 2004. Together with the existing power generating units and the expansions already in progress, the installed capacity of the Group would reach a total of 665,000 kilowatts after completion of the aforementioned expansions. It is also stated in the Interim Report that the Group would also monitor closely the construction progress of its fourth combined cycle generating unit to achieve at least on schedule or earlier than scheduled completion date of second quarter of 2005. Based on the aforesaid, we consider that the development plan of Fuhuade will generate stable contribution to the Group in future.

5. Operating environment of the Group

The Group's principal business is electricity generation and supply in the PRC.

According to the statistics published by the National Bureau of Statistics of China on its website, both total electricity output and consumption in the PRC recorded steady growth. The following table summarises the electricity output and consumption in the PRC and their respective growth rate over preceding year since 1998:

Table 5: Electricity output and consumption in the PRC and growth rates since 1998

Year/period	1998	1999	2000	2001	2002	2003	January to October 2004	Annualised 2004
Electricity output (100 million kwh)	11,662	12,393	13,556	14,717	16,405	19,111	17,431	20,917
Growth rate (%)	2.9	6.3	9.4	8.6	11.5	16.5	N/A	9.5
Electricity consumption (100 million kwh)	11,598	12,305	13,471	14,634	16,332	19,026	17,650	21,180
Growth rate (%)	2.8	6.1	9.4	8.6	11.6	16.5	N/A	11.3

Source: <http://www.stats.gov.cn>, the website of National Bureau of Statistics of China and China Statistical Yearbook 2004

According to an article headed “我國經濟增加前景與電力需求 (Outlook of economic development and electricity demand in the PRC)” dated 17 June 2004 published by 中國國務院發展研究中心 (Development Research Centre of the State Council of PRC), demand for electricity in the PRC in the coming two decades is estimated as follows:

Table 6: Estimated demand for electricity in the PRC in future

Year	2005	2010	2020
Range of electricity demand (100 million kwh)	20,000 – 23,000	28,000 – 32,000	Around 50,000

Based on the above estimation, the annual demand for electricity in the PRC will increase from approximately 20,000 million kwh in 2005 to approximately 50,000 million kwh in 2020, representing a compound annual growth rate of approximately 5.9%. Although the overall demand for electricity is expected to rise in the coming two decades, with rampant investment in new power projects, the risk now facing the industry has switched from a supply shortfall to potential oversupply according to an article (the “Article”) headed “Over-investment in power to be cracked down” published on the website of 中國國家電力公司 (State Power Corporation of China) on 29 November 2004. It is further stated in the Article that, according to a director of Energy Projects at the China International Engineering Consultant Corporation, power supply and demand will be balanced in most area of the PRC by 2006, with some areas oversupplied, and by 2007, a significant part of the country will have a power glut. The rising fuel costs also elevate the risks in the power industry. The coal price has already increased by an average of 30% this year due to surging demand of power. Power companies will face the twin problems of fuel cost increase and electricity tariff decrease as a result of the government's decision to introduce a power pooling system to increase competition in electricity generating. Based on the above, we are of the view that, despite the rising electricity demand in the PRC, the increasing costs of operation and competition in the power industry may create unfavourable operating environment to the Group.

6. Background of the Offeror Group

Details of the background of the Offeror are set out in the letter from Morgan Stanley in the Composite Document. As stated in the letter from Morgan Stanley in the Composite Document, the Offeror is listed on the Main Board of the Stock Exchange and is owned as to approximately 58.96% by Asia Pacific Promotion Limited as at the date of the Announcement. Asia Pacific Promotion Limited is the single largest Sinolink Shareholder and is wholly-owned by Mr. Ou and his family. The Offeror is principally engaged in: (i) property development and investment; (ii) pipeline construction, liquefied petroleum gas and natural gas distribution, transportation, storage, distribution and sales of liquefied petroleum gas and natural gas; and (iii) electricity generation and supply operations.

7. Intentions regarding the business of the Group

As stated in the letter from Morgan Stanley as contained in the Composite Document, the Offeror Directors currently do not intend to make any change to the existing business (including any redeployment of fixed assets) and management of the Group and to make any substantial change of the employee structure except that the Offeror may nominate additional persons to the Board and the management in accordance with business needs. It is envisaged by the directors of the Offeror that the Group will continue to focus on the business of electricity generation and supply in the PRC. The Offeror intends to hold its interest in the Company as a long term investment.

Save pursuant to the Offers and as necessary to maintain sufficient public float in the Company, the Offeror has no current intention either to increase or to decrease its shareholding in the Company. The Offeror Directors will review such intention from time to time.

It is the intention of the Offeror Directors to maintain the listing of the Shares on the Main Board of the Stock Exchange after the close of the Offers. In this regard, the Offeror does not intend to apply any right which may be available to it to acquire compulsorily any shares not acquired under the Share Offer after closing of the Offers, and the Offeror Directors will undertake to the Stock Exchange that appropriate steps will be taken to ensure that not less than 25% of public float exists for the Shares.

The Stock Exchange has stated that if, at the close of the Offers, less than 25% of the issued Shares are held by the public, or if the Stock Exchange believes that:

- (ii) a false market exists or may exist in trading of the Shares; or**
- (iii) there are insufficient Shares in public hands to maintain an orderly market,**

it will consider exercising its discretion to suspend dealings in the Shares. In this connection, it should be noted that upon completion of the Offers, there may be insufficient public float for the Shares and therefore, trading in the Shares may be suspended until a prescribed level of public float is attained.

The Offeror Directors will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure sufficient public float exists in the Shares. The Enerchina Independent Shareholders should note that upon the closing of the Offers, if less than 25% of the Shares are held by the general public, the Offeror will be required to place down the Shares to maintain sufficient number of Shares in public hands, any consequential placing down of the Shares may have dampening effect on the price of the Shares.

LETTER FROM DAO HENG SECURITIES

IV. PRINCIPAL FACTORS CONSIDERED RELATING TO THE OPTION OFFER

We have taken into account the following factors in assessing the reasonableness and fairness of the Option Offer:

- the Option Offer Price represents the difference in value between the Share Offer Price and the Option Exercise Price of the outstanding Options. Based on the exercise price of the Options ranging from HK\$0.44 to HK\$0.55, the Option Offer Price ranges from HK\$0.08 to HK\$0.19;
- as at the Latest Practicable Date, the Company has 115,062,000 outstanding Options. The exercise periods of the Options range from 24 May 2000 to 19 October 2015 (the details of which are set out in Appendix IV to the Composite Document). The exercise in full of the Options would result in the issue of an additional 115,062,000 Shares;
- Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin are common directors of the Offeror and the Company. Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors hold Options in the Company. Each of Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors has given an unconditional and irrevocable undertaking to the Offeror that (1) he will not exercise the Options held by him before the end of the Offer Period (as defined in the Takeovers Code) for the Offers; and (2) he will not accept the Option Offer for the Options held by him;
- 26,900,000 Options held by the Optionholders other than Mr. Ou, Mr. Tang, Mr. MacKenzie and Mr. Xin and other Enerchina Directors who have given undertaking to the Offeror in respect of their Options as mentioned above; and
- our consideration as to the fairness and reasonableness of the Share Offer Price has been set out in Section III above.

V. RECOMMENDATIONS

1. Share Offer

Having considered the above factors and reasons, and in particular that:

- the Shares had been traded at price lower than the Share Offer Price during the entire One-year Period that the Share Offer Price represents premiums ranging from approximately 6.8% to 29.4% over the Share closing price before Suspension and the average Share closing prices during different periods in the One-year Period;
- trading volume of the Shares in the One-year Period was relatively thin that the average daily trading volume of the Shares represented below 3% of the public shareholding of the Company in the entire One-year Period;
- although the premium of the Share closing price as at 2 December 2004 over the unaudited NTA as at 30 June 2004 and the PER are the lowest among those of most of the Comparable Companies, it is considered that Share closing price reflected the fair value of the Group as it might be due to the fact that (i) the Group had an unstable profit record that it became profitable in FY2003 following loss-making in three consecutive financial years (details of our discussion have been set out in the paragraph headed “4. Financial Performance” above) and (ii) the aggregate value of the Shares is relatively small as compared with those of most of the Comparable Companies;
- most of the Comparable Companies paid out dividend for their past financial years while no dividend was declared by the Company, which suggests that both operating performance and dividend yields of most of the Comparable Companies are better than those of the Company; and

LETTER FROM DAO HENG SECURITIES

- despite the rising electricity demand in the PRC, the increasing costs of operation and competition in the power industry may create unfavourable operating environment to the Group.

we consider that the terms of the Share Offer are fair and reasonable as far as the Enerchina Independent Shareholders are concerned, and advise that the Enerchina Independent Board Committee to recommend the Enerchina Independent Shareholders to accept the Share Offer.

Those Enerchina Independent Shareholders who wish to realise the value of their Shares during the Offers period should consider selling in the market the Shares if the net proceeds after deducting the necessary expenses exceeds the net proceeds receivable by accepting the Share Offer.

However, those Enerchina Independent Shareholders who, after considering the information on the Share Offer, are attracted by the background of the Offeror or the recent operating performance of the Group after the Offeror became the substantial Shareholder in May 2002, should consider retaining some or all of their Shares.

Those Enerchina Independent Shareholders should note that although trading in the Shares became relatively active and the Shares were traded close to the Share Offer Price during the Latest Period, it is uncertain whether such active trading in the Latest Period could sustain and they are able to dispose of their Shares at a price higher than the Share Offer Price after the close of the Offers.

2. Option Offer

Having considered the principal factors in relation to the Option Offer as set out in the section headed “IV. Principal factors considered relating to the Option Offer” and in particular, that (i) Option Offer Price ranges from HK\$0.08 to HK\$0.19 and is equivalent to the “see-through” value of Options; (ii) each of the common directors of the Offeror and the Company and other Enerchina Directors undertook to the Offeror that (1) he will not exercise the Options held by him before the end of the Offer Period (as defined in the Takeovers Code) for the Offers; and (2) he will not accept the Option Offer for the Options held by him; and (iii) our consideration as to the fairness and reasonableness of the Share Offer Price has been set out in Section III above, we consider that the Option Offer Price, which is equivalent to the “see-through” value of Options, is fair and reasonable. Accordingly, we advise the Enerchina Independent Board Committee to recommend the Optionholders to accept the Option Offer.

Those Optionholders whose options are exercisable and who wish to realise the value of their Options during the Offers period should consider selling in the market the Shares from exercise of the subscription rights under the Options if the net proceeds after deducting the exercise price and necessary expenses exceeds the net proceeds receivable by accepting the Option Offer.

However, those Optionholders who, after considering the information on the Option Offer, are attracted by the background of the Offeror or the recent operating performance of the Group after the Offeror became the substantial Shareholder in May 2002, should consider retaining some or all of their Options or exercising some or all of their subscription rights under the Options and retaining their Shares thereupon.

Yours faithfully,

For and on behalf of

Dao Heng Securities Limited

Venus Choi

Jenny Leung

Executive Director

Director, Corporate Finance

1. FURTHER PROCEDURES FOR ACCEPTANCE**(A) The Share Offer**

- (a) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of your Shares, you must either:
- (i) lodge your Share certificate(s) and/or transfer receipts and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorizing it to accept the Share Offer on your behalf and requesting it to deliver the Pink Form of Acceptance duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) by post or by hand, marked “Enerchina Share Offer”, to the Registrar at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the Pink Form of Acceptance duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) by post or by hand, marked “Enerchina Share Offer”, to the Registrar at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong; or
 - (iii) if your Shares have been lodged with your broker/custodian bank through CCASS, instruct your broker/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited, in this case, on 17 January 2005 which is one Business Day before the latest date on which acceptances of the Share Offer must be received by the Registrar. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your broker/custodian bank for the timing on the processing of your instruction, and submit your instruction to your broker/custodian bank as required by them; or
 - (iv) if your Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System not later than one Business Day before the latest date on which acceptance of the Share Offer must be received by the Registrar, which is 17 January 2005 in this case.
- (b) If the certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Share Offer in respect of your Shares, the Pink Form of Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

- (c) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete the Pink Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an authority to Morgan Stanley and/or the Offeror or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Pink Form of Acceptance.
- (d) Acceptance of the Share Offer will be treated as valid only if the completed Pink Form of Acceptance is received by the Registrar by not later than 4:00 p.m. on 18 January 2005 or such later time and/or date as the Offeror may determine and announce and the Registrar has recorded that the acceptance and any relevant documents required by Note 1 to Rule 30.2 of the Takeovers Code have been so received, and is:
 - (i) accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those Share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Shares; or
 - (ii) from a registered shareholder of the Shares or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under this paragraph (d)); or
 - (iii) certified by the Registrar or the Stock Exchange.

If the Pink Form of Acceptance is executed by a person other than the registered holder of the Shares, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

- (e) No acknowledgement of receipt of any Pink Form(s) of Acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

(B) The Option Offer

- (a) If you accept the Option Offer, you should complete the White Form of Acceptance obtainable from the head office and principal place of business of the Company at 28th Floor, Vicwood Plaza, 199 Des Voeux Road, Central, Hong Kong in accordance with the instructions printed thereon, which instructions form part of the terms of the Option Offer.
- (b) The completed White Form of Acceptance should be forwarded, together with the relevant Option certificate(s) (if any) stating the number of Options for not less than the number of Options in respect of which you intend to accept the Option Offer, by post or by hand to the company secretary of the Company at 28th Floor, Vicwood Plaza, 199 Des Voeux Road, Central, Hong Kong, marked "Enerchina Option Offer" on the envelope, as soon as possible and in any event so as to reach the company secretary of the Company at the aforesaid address by no later than 4:00 p.m. on 18 January 2005.

- (c) No acknowledgement of receipt of any White Form(s) of Acceptance, Option certificate(s) (if any) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

2. ACCEPTANCE PERIOD AND REVISIONS

The Offers are made on 28 December 2004, namely the date of posting of this document, and is capable of acceptance on and from this date.

The Offeror does not intend to extend the Offers. Unless the Offers have previously been extended, all acceptances must be received by 4:00 p.m. on 18 January 2005, and the Offers will close on 18 January 2005.

The Offeror does not intend to revise the terms of the Offers in principle. If in the course of the Offers, the Offeror revises its terms, all the Shareholders and the Optionholders, whether or not they have already accepted the Offers, will be entitled to the revised terms. A revised offer must be kept open for at least 14 days following the date on which the revised offer document is posted.

3. ANNOUNCEMENTS

- (a) By 6:00 p.m. (or such later time and/or date as the Executive agrees) on 18 January 2005 which is the Closing Date, the Offeror must inform the Executive and the Stock Exchange of its intention in relation to the revision, extension or expiry of the Offers. The Offeror must publish an announcement on Stock Exchange's website by 7:00 p.m. on the Closing Date stating whether the Offers have been revised, extended or has expired. Such announcement must be republished in accordance with the requirements set out below on the next business day.

The announcement will state the total number of Shares and Options and rights over Shares:

- (i) for which acceptances of the Offers have been received;
- (ii) held, controlled or directed by the Offeror or persons acting in concert with it before the offer period; and
- (iii) acquired or agreed to be acquired during the offer period by the Offeror or any persons acting in concert with it.

The announcement will also include the details of voting rights, rights over Shares, derivatives and arrangements as required in rule 3.5(c), (d) and (f) of the Takeovers Code. The announcement will also specify the percentages of the relevant classes of share capital, and the percentages of voting rights, represented by these numbers.

- (b) As required under the Takeovers Code and the Listing Rules, all announcements in relation to the Offers, will be republished as a paid announcement in at least one leading English language newspaper and one leading Chinese language newspaper published daily and circulating generally in Hong Kong. Copies of all documents will be delivered to the Executive and the Stock Exchange (Listing Division) in electronic form, in accordance with their requirements from time to time for publication on their respective websites.
- (c) In computing the number of Shares and Options represented by acceptances, there may be included or excluded, for announcement purposes, acceptances which are not in all respects in order or which are subject to verification. The number of these acceptances will be separately stated.

4. RIGHT OF WITHDRAWAL

As the Offers are unconditional, acceptances to the Offers tendered by the holders of Shares and Options, as the case may be, shall be irrevocable and cannot be withdrawn.

5. GENERAL

- (a) All communications, notices, Forms of Acceptance, certificates of Shares or Options (if any), transfer receipts, other documents of title or indemnity and remittances to be delivered by or sent to or the holders of Shares and Options will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of the Offeror, or Morgan Stanley or any of this respective agents accepts any liability for any loss in postage or any other liabilities that may arise as a result.
- (b) Subject to the terms of the Takeovers Code, acceptance(s) of the Offers may, at the discretion of the Offeror, be treated as valid even if not accompanied by the Share certificate(s), Option certificate(s) (if any) and/or other document(s) of title, but, in such cases, the cheque(s) for the consideration due will not be dispatched until the Share certificate(s), Option certificate(s) and/or other document(s) of title (and/or a satisfactory indemnity or indemnities in respect thereof) has/have been received by the Registrar.
- (c) The provisions set out in the accompanying Forms of Acceptance form part of the terms of the Offers.
- (d) The accidental omission to dispatch this document and/or Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate the Offers in any way.
- (e) The Offers and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (f) Due execution of the Forms of Acceptance will constitute an authority to any director of the Offeror or such person or persons as the Offeror or Morgan Stanley may direct to complete and execute any document on behalf of the person accepting the Offers and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares and the Options in respect of which such person has accepted the Offers.
- (g) Acceptance of the Offers by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares and Options acquired under the Offers are sold by any such person or persons free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights attaching thereto including the rights to receive all future dividends or other distributions declared, paid or made on the Shares on or after the date of the Announcement. The holders of Options will surrender to the Company all of their existing rights in respect of the Options, following which such Options will be cancelled and extinguished.
- (h) Sellers' ad valorem stamp duty for the Shares registered on the Hong Kong branch register arising in connection with the acceptance of the Hong Kong Share Offer will be payable by holders of the Shares at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the consideration payable by the Offeror for such person's Shares and will be deducted from the cash amount due to such person under the Share Offer. The Offeror will pay the buyer's ad valorem stamp duty on its own behalf and the seller's ad valorem stamp duty on behalf of the accepting holders of the Shares in respect of the Shares accepted under the Share Offer.

- (i) The Offeror does not intend to apply any right which may be available to it to acquire compulsorily any Shares or Options not acquired under the Offers before or after the closing of the Offers have closed.
- (j) Settlement of the consideration to which any Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the relevant Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder.
- (k) References to the Offers in this document and in the Forms of Acceptance shall include any revision and/or extension thereof.
- (l) The making of the Offers to persons with a registered address in jurisdiction outside Hong Kong may be affected by the laws of the relevant jurisdictions. Holders of Shares and Options who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Offers to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction.
- (m) The English text of this document and of the Forms of Acceptance shall prevail over the Chinese text for the purpose of interpretation.
- (n) The Registrar is situated at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

A. SUMMARY OF FINANCIAL RESULTS OF ENERCHINA GROUP

Set out below is a summary of the financial information extracted from the audited financial statements of the Enerchina Group published in the Company's annual reports for the year ended 31 December 2002 and the year ended 31 December 2003 respectively and the unaudited financial statements of the Enerchina Group for the six months ended 30 June 2004 published in the Company's 2004 interim report for the six month period ended 30 June 2004.

	1.1.2004 to 30.6.2004 <i>HK\$'000</i> Unaudited	1.1.2003 to 31.12.2003 <i>HK\$'000</i> Audited	1.1.2002 to 31.12.2002 <i>HK\$'000</i> Audited	1.1.2001 to 31.12.2001 <i>HK\$'000</i> Audited
Turnover	364,675	559,797	115,245	670
Cost of sales and direct operating expenses	(287,664)	(415,478)	(94,460)	(329)
Gross profit	77,011	144,319	20,785	341
Other operating income	2,727	6,951	1,093	13,478
Impairment loss of investment securities	–	–	(13,300)	(47,965)
Impairment loss of investment in an option	–	–	(48,986)	–
Loss arising from investment properties	–	–	(5,167)	(4,297)
Administrative and selling expenses	(14,484)	(23,216)	(19,683)	(19,201)
Other operating expenses	(5,841)	(11,516)	(7,559)	(112)
Profit (loss) from operations	59,413	116,538	(72,817)	(57,756)
Finance costs	(7,555)	(18,384)	(5,666)	(1,710)
Impairment loss of associates	–	–	–	(41,555)
Gain on deemed disposal of subsidiaries	–	–	–	1,817
Loss on disposal of associates subsidiaries	–	(38)	(2,135)	–
Amortisation of premium on acquisition of associates	–	–	(3,655)	(6,662)
Share of results of associates	–	–	2,611	(34,433)
Profit (loss) before taxation	51,858	98,116	(81,622)	(140,299)
Income taxes	(4,458)	(8,899)	(111)	(2,118)
Profit (loss) before minority interests	47,400	89,217	(81,773)	(142,417)
Minority interests	(17,532)	(31,751)	(3,924)	527
Net profit (loss) for the year/period	<u>29,868</u>	<u>57,466</u>	<u>(85,697)</u>	<u>(141,890)</u>
Earnings (loss) per share – Basic	<u>1.55 cents</u>	<u>17.23 cents</u>	<u>(56.80) cents</u>	<u>(3.90) cents</u>
– Diluted	<u>1.54 cents</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Dividend	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

B. AUDITED FINANCIAL INFORMATION (reproduced from the Company's annual report for the year ended 31 December 2003 save and except the notes at the bottom of this page)

Set out below is the audited consolidated income statement, consolidated balance sheet, balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and notes to the financial statements reproduced from the audited financial statements published in the Company's annual report for the year ended 31 December 2003 save and except the notes at the bottom of this page.

Consolidated Income Statement

For the year ended 31 December 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
Turnover	4	559,797	115,245
Cost of sales and direct operating expenses		(415,478)	(94,460)
Gross profit		144,319	20,785
Other income	6	6,951	1,093
Administrative and selling expenses		(23,216)	(19,683)
Impairment loss of investment in an option		–	(48,986)
Loss arising from investment properties	7	–	(5,167)
Impairment loss of investment securities		–	(13,300)
Other operating expenses	8	(11,516)	(7,559)
Profit (loss) from operations	9	116,538	(72,817)
Finance costs	10	(18,384)	(5,666)
Loss on disposal of an associate/subsidiaries		(38)	(2,135)
Amortisation of premium on acquisition of associates		–	(3,655)
Share of results of associates		–	2,611
Profit (loss) before taxation		98,116	(81,662)
Income taxes	14	(8,899)	(111)
Profit (loss) before minority interests		89,217	(81,773)
Minority interests		(31,751)	(3,924)
Net profit (loss) for the year		57,466	(85,697)
Earnings (loss) per share – Basic	15	17.23 cents	(56.80) cents

Notes:

- (1) There is no extraordinary or exceptional item that is required to be included in the audited consolidated income statement of the Company for the three years ended 31 December 2003 and the unaudited condensed consolidated income statement of the Company for the six months ended 30 June 2004.
- (2) The consolidated financial statements of the Company for the three financial years ended 31 December 2003 were audited by Deloitte Touche Tohmatsu who has given an unqualified audit opinion in respect of the Company's consolidated financial statements for each of the three financial years ended 31 December 2003.

APPENDIX II FINANCIAL INFORMATION ON THE ENERCHINA GROUP

Consolidated Balance Sheet

At 31 December 2003

		2003	2002
	NOTES	HK\$'000	HK\$'000
Non-current assets			
Investment properties	17	–	670
Property, plant and equipment	18	628,993	568,881
Goodwill	20	204,993	141,174
Interests in associates	21	–	563
Investments in securities	22	84,674	84,674
		<u>918,660</u>	<u>795,962</u>
Current assets			
Inventories	23	38,700	23,942
Debtors, deposits and prepayments	24	94,284	97,038
Amount due from an associate	25	46	–
Dividend receivable		3,475	3,475
Pledged bank deposits	34	13,861	4,091
Bank balances and cash		348,794	85,236
		<u>499,160</u>	<u>213,782</u>
Current liabilities			
Creditors and accrued charges	24	91,869	98,091
Amount due to an associate	25	–	5,520
Amount due to a shareholder	25	15,686	4,286
Loan from a minority shareholder of a subsidiary	25	12,914	28,054
Taxation payable		8,899	483
Loan from a shareholder	26	75,000	–
Secured bank borrowings – due within one year	27	147,821	–
		<u>352,189</u>	<u>136,434</u>
Net current assets		<u>146,971</u>	<u>77,348</u>
		<u>1,065,631</u>	<u>873,310</u>
Capital and reserves			
Share capital	28	7,628	36,322
Reserves		653,410	243,741
		<u>661,038</u>	<u>280,063</u>
Minority interests		<u>66,913</u>	<u>35,162</u>
Non-current liabilities			
Secured bank borrowings – due after one year	27	337,680	361,085
Loan from a shareholder	26	–	197,000
		<u>337,680</u>	<u>558,085</u>
		<u>1,065,631</u>	<u>873,310</u>

APPENDIX II

FINANCIAL INFORMATION ON THE ENERCHINA GROUP

Balance Sheet

At 31 December 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Property, plant and equipment	18	–	73
Interests in subsidiaries	19	443,116	443,116
		<u>443,116</u>	<u>443,189</u>
Current assets			
Debtors, deposits and prepayments		3,895	4,051
Amount due from an associate	25	46	–
Bank balances and cash		212,351	20,229
		<u>216,292</u>	<u>24,280</u>
Current liabilities			
Creditors and accrued charges		4,451	1,287
Amount due to an associate	25	–	5,520
Loan from a shareholder	26	75,000	–
Amount due to a shareholder	25	438	3,886
		<u>79,889</u>	<u>10,693</u>
Net current assets		<u>136,403</u>	<u>13,587</u>
		<u>579,519</u>	<u>456,776</u>
Capital and reserves			
Share capital	28	7,628	36,322
Reserves	30	571,891	223,454
		<u>579,519</u>	<u>259,776</u>
Non-current liability			
Loan from a shareholder	26	–	197,000
		<u>579,519</u>	<u>456,776</u>

APPENDIX II

FINANCIAL INFORMATION ON THE ENERCHINA GROUP

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

	Share capital <i>HK\$'000</i> <i>(note 28)</i>	Share premium <i>HK\$'000</i> <i>(note 30)</i>	Translation reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i> <i>(note 30)</i>	Accumulated profits (losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2002	363,225	388,075	18	–	(385,540)	365,778
Exchange difference arising on translation of overseas operations and net loss not recognised in the income statement	–	–	(443)	–	–	(443)
Capital reduction	(326,903)	–	–	326,903	–	–
Released upon disposal of subsidiaries	–	–	18	–	–	18
Reclassification of an associate to investments in securities	–	–	407	–	–	407
Net loss for the year	–	–	–	–	(85,697)	(85,697)
Balance at 31 December 2002	36,322	388,075	–	326,903	(471,237)	280,063
Rights issue – February 2003	54,484	54,484	–	–	–	108,968
Issue expenses – February 2003	–	(3,614)	–	–	–	(3,614)
Rights issue – December 2003	4,903	191,236	–	–	–	196,139
Issue expenses – December 2003	–	(4,192)	–	–	–	(4,192)
Shares subscription	454	26,786	–	–	–	27,240
Shares subscription expenses	–	(1,032)	–	–	–	(1,032)
Capital reduction	(88,535)	–	–	88,535	–	–
Utilization of contributed surplus against accumulated losses	–	–	–	(415,438)	415,438	–
Net profit for the year	–	–	–	–	57,466	57,466
Balance at 31 December 2003	<u>7,628</u>	<u>651,743</u>	<u>–</u>	<u>–</u>	<u>1,667</u>	<u>661,038</u>

APPENDIX II FINANCIAL INFORMATION ON THE ENERCHINA GROUP

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
OPERATING ACTIVITIES			
Profit (loss) before taxation		98,116	(81,662)
Adjustments for:			
Depreciation		44,980	11,577
Amortisation of goodwill		11,181	7,454
Amortisation of premium on acquisition of associates		–	3,655
Interest expense		18,384	5,666
Interest income		(575)	(843)
Loss on disposal of property, plant and equipment		252	–
Loss on disposal of investment properties		126	5,137
Loss on disposal of an associate/subsidiaries		38	2,135
Impairment loss of investment in an option		–	48,986
Impairment loss of investment securities		–	13,300
Deficit arising on revaluation of investment properties		–	30
Share of results of associates		–	(2,611)
Operating cash flows before movements in working capital		172,502	12,824
Increase in inventories		(14,758)	(8,869)
Increase in debtors, deposits and prepayments		(72,246)	(7,573)
(Decrease) increase in creditors and accrued charges		(6,874)	68,204
Tax paid in other jurisdiction		(268)	–
NET CASH FROM OPERATING ACTIVITIES		78,356	64,586
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(100,973)	(285,900)
(Increase) decrease in pledged bank deposits		(9,770)	3,749
Advance to an associate		(46)	–
Interest received		575	2,069
Proceeds from disposal of investment properties		544	22,353
Proceed from disposal of an associate		525	–
Proceeds from disposal of property, plant and equipment		3	–
Purchase of subsidiaries (net of cash and cash equivalents acquired)	32	–	(79,921)
Purchase of investment in securities		–	(436)
Disposal of subsidiaries (net of cash and cash equivalents)	33	–	26,133
Repayment of amount due from an associate		–	5,265
Loan repayment from a former associate		–	5,000
NET CASH USED IN INVESTING ACTIVITIES		(109,142)	(301,688)

APPENDIX II

FINANCIAL INFORMATION ON THE ENERCHINA GROUP

	2003	2002
NOTES	HK\$'000	HK\$'000
FINANCING ACTIVITIES		
New bank loans raised	640,120	303,630
Proceeds from rights issue of shares	297,301	–
Proceeds from shares subscription	26,208	–
Advanced from a shareholder	15,286	400
Repayment of bank loans	(515,704)	(134,729)
Repayment of shareholder’s loan	(122,000)	–
Interest paid on banks and other borrowings	(26,207)	(10,615)
Repayment of loan from a minority shareholder of a subsidiary	(15,140)	–
(Repayment of) advance from an associate	(5,520)	4,756
NET CASH FROM FINANCING ACTIVITIES	294,344	163,442
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	263,558	(73,660)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	85,236	158,896
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
– Bank balances and cash	348,794	85,236

Notes to the Financial Statements*For the year ended 31 December 2003***1. GENERAL**

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in note 41 to the financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted for the first time, Hong Kong Financial Reporting Standards (“HKFRS”) – Statement of Standard Accounting Practice (“SSAP”) 12 (Revised) “Income taxes” issued by the Hong Kong Society of Accountants (“HKSA”). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has no significant effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisition is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company’s balance sheet at cost less any identified impairment loss.

Investments in associates

The consolidated income statement includes the Group’s share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group’s share of the net assets of the associates plus the premium paid on acquisition in so far as it has not been amortised, less any identified impairment loss.

Revenue recognition

Revenue from electricity supply operations is recognised when electricity is supplied.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders’ rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and impairment loss.

Depreciation is provided so as to write off the cost of property, plant and equipment other than construction in progress, using the straight-line method over their estimated useful lives which are as follows:

Leasehold land	Over the lease term
Buildings	Over the lease term or 50 years, whichever is shorter
Leasehold improvements	5 years or over the lease term, whichever is shorter
Furniture, fixtures and equipment	5 years
Plant and machinery	10 years
Motor vehicles	5 years

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Construction in progress

Construction in progress is stated at cost which includes all development expenditure and other direct costs, including borrowing costs, attributable to such projects. Costs on completed construction works are transferred to other categories of property, plant and equipment.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods, and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefits scheme

Payments to the Mandatory Provident Fund Scheme/state-managed retirement benefit scheme are charged as an expense as they fall due.

4. TURNOVER

	2003 HK\$'000	2002 HK\$'000
Turnover of the Group is analysed as follows:		
Electricity supplies	559,797	114,792
Property leasing	–	453
	<u>559,797</u>	<u>115,245</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group was organised into three operating divisions – electricity supplies, property leasing and investment holding in prior years. The property leasing business was ceased during the year upon the disposal of the investment property. Therefore, the Group currently has two reportable divisions. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Year ended 31 December 2003

	Continuing operations		Discontinuing operations	Consolidated HK\$'000
	Electricity supplies HK\$'000	Investment holding HK\$'000	Property leasing HK\$'000	
TURNOVER	<u>559,797</u>	<u>–</u>	<u>–</u>	<u>559,797</u>
RESULT				
Segment result	<u>119,051</u>	<u>313</u>	<u>(10)</u>	119,354
Finance costs				(18,384)
Interest income				575
Unallocated corporate expenses				<u>(3,429)</u>
Profit before taxation				98,116
Taxation				<u>(8,899)</u>
Profit before minority interests				<u>89,217</u>

Year ended 31 December 2002

TURNOVER	<u>114,792</u>	<u>–</u>	<u>453</u>	<u>115,245</u>
RESULT				
Segment result	<u>6,840</u>	<u>(67,929)</u>	<u>(4,895)</u>	(65,984)
Finance costs				(5,666)
Interest income				843
Share of results of associates				2,611
Unallocated corporate expenses				<u>(13,466)</u>
Loss before taxation				(81,662)
Taxation				<u>(111)</u>
Loss before minority interests				<u>(81,773)</u>

APPENDIX II FINANCIAL INFORMATION ON THE ENERCHINA GROUP

Balance sheet

	Continuing operations		Discontinuing operations	Consolidated HK\$'000
	Electricity supplies HK\$'000	Investment holding HK\$'000	Property leasing HK\$'000	
At 31 December 2003				
ASSETS				
Segment assets	902,452	288,181	—	1,190,633
Unallocated corporate assets				227,187
				<u>1,417,820</u>
Consolidated total assets				<u>1,417,820</u>
LIABILITIES				
Segment liabilities	(122,820)	—	—	(122,820)
Borrowings	(485,501)	(75,000)	—	(560,501)
Unallocated corporate liabilities				(6,548)
				<u>(689,869)</u>
Consolidated total liabilities				<u>(689,869)</u>
OTHER INFORMATION				
Capital additions	105,333	14	—	105,347
Depreciation and amortisation	44,802	11,359	—	56,161
				<u>56,161</u>
At 31 December 2002				
ASSETS				
Segment assets	670,609	299,362	672	970,643
Investment in associates				563
Unallocated corporate assets				38,538
				<u>1,009,744</u>
Consolidated total assets				<u>1,009,744</u>
LIABILITIES				
Segment liabilities	(123,593)	—	(45)	(123,638)
Borrowings	(361,085)	(197,000)	—	(558,085)
Unallocated corporate liabilities				(12,796)
				<u>(694,519)</u>
Consolidated total liabilities				<u>(694,519)</u>
OTHER INFORMATION				
Capital additions	443,363	—	—	443,363
Depreciation and amortisation	11,233	11,453	—	22,686
Impairment loss of investment securities	—	13,300	—	13,300
				<u>13,300</u>

Geographical segments

The analysis of the Group’s turnover by geographical market is as follows:

	Turnover by geographical market	
	2003	2002
	HK\$'000	HK\$'000
The People’s Republic of China (“PRC”)	559,797	114,792
Hong Kong	–	453
	<u>559,797</u>	<u>115,245</u>

An analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area is as follows:

	Carrying amount of segment assets		Capital additions	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	985,642	754,360	105,333	443,363
Hong Kong	432,178	255,384	14	–
	<u>1,417,820</u>	<u>1,009,744</u>	<u>105,347</u>	<u>443,363</u>

6. OTHER INCOME

	2003	2002
	HK\$'000	HK\$'000
Other income includes the following income		
Management fee income (<i>note</i>)	5,540	–
Interest income on bank deposit	575	751
Other interest income	–	92
Others	836	250
	<u>6,951</u>	<u>1,093</u>

Note: Details of the management fee income are set out in note 39(c) to the financial statements.

7. LOSS ARISING FROM INVESTMENT PROPERTIES

	2003	2002
	HK\$'000	HK\$'000
Loss on disposal of investment properties	–	5,137
Deficit arising on revaluation	–	30
	<u>–</u>	<u>5,167</u>

APPENDIX II FINANCIAL INFORMATION ON THE ENERCHINA GROUP

8. OTHER OPERATING EXPENSES

	2003 HK\$'000	2002 HK\$'000
Other operating expenses comprise:		
Amortisation of goodwill	11,181	7,454
Loss on disposal of property, plant and equipment	252	—
Severance payment	—	105
Others	83	—
	<u>11,516</u>	<u>7,559</u>

9. PROFIT (LOSS) FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Auditors' remuneration		
Depreciation and amortisation:	474	823
Owned assets	44,980	11,577
Minimum lease payment under operating lease in respect of rented premises	4,940	1,589
Staff costs:		
Retirement benefits scheme contributions	138	201
Staff costs (including Directors' remuneration)	15,043	9,113
Total staff costs	15,181	9,314
Cost of inventories recognised as an expense	<u>355,118</u>	<u>77,803</u>
and after crediting:		
Operating lease rental income in respect of investment properties, net of outgoings of HK\$nil (2002: HK\$128,000)	<u>—</u>	<u>325</u>

10. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	14,924	10,312
Loan from a shareholder	4,456	3,886
	19,380	14,198
Interest on bank borrowings not wholly repayable within five years	3,378	303
Total borrowing costs	22,758	14,501
Less: Amounts capitalised	4,374	8,835
	<u>18,384</u>	<u>5,666</u>

Borrowing costs capitalised during the year arising on borrowings are calculated by applying a capitalisation rate of 4.2% (2002: 2.13%) to expenditure on qualifying assets.

11. DISCONTINUING OPERATION

In March 2003, the Group entered into a sale and purchase agreement to dispose of its investment property, which represented the Group's property leasing operations in Hong Kong. The disposal was effected in order to generate cash flow for the expansion of the Group's other business. The disposal was completed in April 2003.

The results of the property leasing operations for the period from 1 January 2003 to the date of disposal have been included in the financial statements, and were as follows:

	1.1.2003 to date of disposal HK\$'000	Year ended 31.12.2002 HK\$'000
Turnover	–	453
Operating costs	(10)	(5,064)
Finance costs	–	(284)
	<u>–</u>	<u>(5,395)</u>
Net loss for the period	<u>(10)</u>	<u>(4,895)</u>

During the year, the property leasing operation contributed an outflow of HK\$10,000 (2002: an inflow of HK\$271,000) to the Group's net operation cash flows, received HK\$544,000 (2002: HK\$22,353,000) in respect of investing activities and had no cash flows in respect of financing activities (2002: an outflow of HK\$18,324,000).

A loss of HK\$126,000 was incurred on the disposal of the investment property. No tax charge or credit arose from the disposal.

12. DIRECTORS' REMUNERATION

	2003 HK\$'000	2002 HK\$'000
Directors' fees:		
Executive	–	–
Independent non-executive	300	320
	<u>300</u>	<u>320</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	2,370	2,629
Contractual payments for loss of office of former directors	–	1,080
Retirement benefits scheme contributions	90	128
	<u>2,760</u>	<u>4,157</u>

Emoluments of the directors were within the following bands:

	2003 Number of directors	2002 Number of directors
HK\$nil to HK\$1,000,000	8	11
HK\$1,000,001 to HK\$1,500,000	–	2
HK\$1,500,001 to HK\$2,000,000	<u>1</u>	<u>–</u>

13. EMPLOYEES' EMOLUMENTS

The six individuals with the highest emoluments in the Group included three executive directors (2002: four executive directors), whose emoluments are included in the amounts disclosed in note 12. The emoluments of the remaining three individuals (2002: two individuals) for the year ended 31 December 2003 are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	1,028	815
Retirement benefits scheme contributions	40	37
	<u>1,068</u>	<u>852</u>

Their emoluments are within the following band:

	2003 Number of employees	2002 Number of employees
HK\$nil to HK\$1,000,000	<u>3</u>	<u>2</u>

14. INCOME TAXES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Current tax:		
PRC income tax	<u>8,899</u>	<u>–</u>
Taxation attributable to the Company and its subsidiaries	<u>8,899</u>	<u>–</u>
Taxation attributable to an associate	<u>–</u>	<u>111</u>
Total	<u>8,899</u>	<u>111</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred tax losses in both years.

Pursuant to relevant laws and regulations in the PRC, the Group's subsidiary operating in the PRC is entitled to an exemption from income tax under certain tax holidays and concessions. Income tax is calculated at rates given under the respective concessions.

The taxation charge for the prior year represented the share of taxation other than in Hong Kong attributable to associates calculated at rates prevailing in the relevant jurisdictions.

Details of deferred taxation are set out in note 31.

	2003 HK\$'000	2002 HK\$'000
Profit (loss) before taxation	98,116	(81,662)
Tax (charge) credit at domestic income tax rate of 17.5% (2002: 16%)	(17,170)	13,066
Tax effect of share of results of associates	–	(346)
Tax effect of expenses not deductible for tax purpose	(1,965)	(1,994)
Tax effect of income that is not taxable in determining taxable profit	87	173
Tax losses not recognised	(1,244)	(14,859)
Effect of tax exemption granted to a PRC subsidiary	11,297	2,100
Effect of different tax rate of a subsidiary operating in the PRC	72	1,749
Utilisation of tax losses previously not recognised	24	–
Taxation for the year	(8,899)	(111)

15. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the net profit for the year of HK\$57,466,000 (2002: loss of HK\$85,697,000) and on the weighted average number of 333,610,723 (2002: 150,864,502) ordinary shares in issue during the year.

No diluted earnings per share has been presented because the exercise price of the Company’s options was higher than the average market price of shares for the year ended 31 December 2003.

No diluted loss per share has been calculated for the year ended 31 December 2002 as the exercise of the share options would result in a decrease in the loss per share.

16. DIVIDEND

No dividend was paid or proposed during 2003, nor has any dividend been proposed since the balance sheet date (2002: HK\$nil).

17. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
AT VALUATION	
At 1 January 2003	670
Disposals	(670)
At 31 December 2003	–

During the year, the Group disposed of it investment property at a consideration of HK\$544,000.

The Group’s investment property was situated in Hong Kong and held under medium-term lease.

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>
THE COMPANY	
COST	
At 1 January 2003	478
Written off	(478)
	<hr/>
At 31 December 2003	–
	<hr/>
DEPRECIATION	
At 1 January 2003	405
Provided for the year	73
Eliminate on write off	(478)
	<hr/>
At 31 December 2003	–
	<hr/>
NET BOOK VALUES	
At 31 December 2003	–
	<hr/>
At 31 December 2002	73
	<hr/>

Included in construction in progress is net interest capitalised of approximately HK\$4,374,000 (2002: HK\$8,835,000).

19. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	435,400	435,400
Less: Impairment losses recognised	(161,398)	(161,398)
	<u>274,002</u>	<u>274,002</u>
Amounts due from subsidiaries	584,969	586,488
Allowance for amounts due from subsidiaries	(415,855)	(417,374)
	<u>169,114</u>	<u>169,114</u>
	<u><u>443,116</u></u>	<u><u>443,116</u></u>

Details of the principal subsidiaries of the Company as at 31 December 2003 are set out in note 41.

20. GOODWILL

	THE GROUP
	<i>HK\$'000</i>
COST	
At 1 January 2002	–
Arising on acquisition during the year	<u>148,628</u>
At 1 January 2003	148,628
Adjustment to purchase consideration	<u>75,000</u>
At 31 December 2003	<u>223,628</u>
AMORTISATION	
At 1 January 2002	–
Provided for the year	<u>7,454</u>
At 1 January 2003	7,454
Provided for the year	<u>11,181</u>
At 31 December 2003	<u>18,635</u>
NET BOOK VALUES	
At 31 December 2003	<u><u>204,993</u></u>
At 31 December 2002	<u><u>141,174</u></u>

The goodwill represents principally the premium arising on the acquisition of subsidiaries and is amortised over a period of twenty years.

Details of the adjustment to purchase consideration are set out in note 39 to the financial statements.

21. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	—	563
Premium on acquisition of associates	—	—
	<u>—</u>	<u>563</u>

During the year, Everlink Cable Engineering Consulting Company Limited, an associate of the Group was liquidated. The results of the associate for the period from 1 January 2003 to the date of liquidation was not significant. The proceeds from the liquidation of the associate was HK\$525,000.

22. INVESTMENTS IN SECURITIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Investment securities, carried at cost less impairment:		
Unlisted shares	83,188	83,188
Club debentures	<u>1,486</u>	<u>1,486</u>
	<u>84,674</u>	<u>84,674</u>

The Group owned 41% equity interest in Xin Hua Control Engineering Company Limited (“Xin Hua”), a sino-foreign equity joint venture established in the PRC. In 2002, in the opinion of the directors, the group no longer has significant influence over Xin Hua. Accordingly, the carrying value of Xin Hua was reclassified to investments in securities.

23. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Raw materials and consumables	<u>38,700</u>	<u>23,942</u>

The inventories are stated at cost.

24. DEBTORS AND CREDITORS

An analysis of the balance of debtors, deposits and prepayments is as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Trade debtors	76,879	19,160
Other receivables, deposits and prepayments	17,405	2,878
Amount due from a shareholder	—	75,000
	<u>94,284</u>	<u>97,038</u>

The following is an aged analysis of the trade debtors at 31 December 2003:

	2003	2002
	HK\$'000	HK\$'000
0 – 60 days	<u>76,879</u>	<u>19,160</u>

The Group allows an average credit period of 60 days to its customer.

An analysis of the balance of creditors and accrued charges is as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Trade creditors	24,650	19,005
Other creditors and accrued charges	<u>67,219</u>	<u>79,086</u>
	<u>91,869</u>	<u>98,091</u>

The following is an aged analysis of the trade creditors at 31 December 2003:

	2003	2002
	HK\$'000	HK\$'000
0 – 60 days	22,882	19,005
Over 180 days	<u>1,768</u>	<u>—</u>
	<u>24,650</u>	<u>19,005</u>

25. AMOUNT DUE FROM/TO AN ASSOCIATE, AMOUNT DUE TO A SHAREHOLDER AND LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

THE GROUP AND THE COMPANY

The amounts are unsecured, interest free and repayable on demand.

26. LOAN FROM A SHAREHOLDER

THE GROUP AND THE COMPANY

The amount is secured by shares of the Company and Sinolink Industrial Limited, a subsidiary of the Company.

27. SECURED BANK BORROWINGS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Bank borrowings comprise the following:		
Bank loans	485,501	361,085
The bank borrowings are repayable as follows:		
Within one year	147,821	—
More than one year, but not exceeding two years	71,581	37,418
More than two years, but not exceeding five years	242,806	323,667
More than five years	23,293	—
	485,501	361,085
Less: Amount due within one year shown under current liabilities	(147,821)	—
	337,680	361,085

During the year, the Group obtained and renewed the terms of certain bank borrowings with certain banks. At the balance sheet date, an aggregate amount of RMB230,000,000 (equivalent to approximately HK\$215,000,000) and US\$25,000,000 (equivalent to approximately HK\$195,000,000) were secured by the plant and machinery and leasehold land and buildings of the Group with a carrying value of HK\$472,186,000 and HK\$94,316,000 respectively.

The details of the corporate guarantee are set out in note 39 to the financial statements.

28. SHARE CAPITAL

	Number of shares		Share capital	
	2003	2002	2003	2002
			HK\$'000	HK\$'000
Ordinary shares of HK\$0.01 each				
<i>Authorised:</i>				
At beginning of year	30,000,000,000	6,000,000,000	300,000	600,000
Capital reduction (<i>note c</i>)	(29,250,000,000)	–	(292,500)	(540,000)
Increase in authorised share capital (<i>note d</i>)	1,750,000,000	24,000,000,000	17,500	240,000
At end of year	<u>2,500,000,000</u>	<u>30,000,000,000</u>	<u>25,000</u>	<u>300,000</u>
<i>Issued and fully paid:</i>				
At beginning of year	3,632,245,567	3,632,245,567	36,322	363,225
Capital reduction	–	–	–	(326,903)
Rights issue – February 2003 (<i>note b</i>)	5,448,368,349	–	54,484	–
Share consolidation and reduction – April 2003 (<i>note c</i>)	(8,853,598,569)	–	(88,535)	–
Shares subscription (<i>note e</i>)	45,400,000	–	454	–
Rights issue – December 2003 (<i>note f</i>)	490,347,621	–	4,903	–
At end of year	<u>762,762,968</u>	<u>3,632,245,567</u>	<u>7,628</u>	<u>36,322</u>

Notes:

- (a) During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.
- (b) Pursuant to an ordinary resolution passed on a special general meeting held on 10 February 2003, the Company issued 5,448,368,349 rights shares of HK\$0.01 each at HK\$0.02 per rights share in proportion of three rights shares for every two existing shares held.
- (c) Pursuant to the resolutions passed on a special general meeting held on 22 April 2003. The share capital of the Company was changed as follows:
 - The ordinary shares of the Company in their consolidated form, every forty issued and unissued shares of HK\$0.01 each in the capital of the Company, were consolidated into one share of HK\$0.40 (“Consolidated Shares”) in the capital of the Company;
 - The authorised share capital of the Company was reduced from HK\$300,000,000 divided into 750,000,000 Consolidated Shares to HK\$7,500,000 divided into 750,000,000 ordinary shares of HK\$0.01 each and that such reduction was effected by (i) reducing the issued share capital of the Company from HK\$90,806,000 to HK\$2,270,000 by cancelling paid up share capital to the extent of HK\$0.39 on each Consolidated Shares in issue; and (ii) by reducing the nominal value of each issued and unissued Consolidated Shares from HK\$0.40 to HK\$0.01; and
 - The credit of HK\$88,535,000 arising from the reduction of issued capital of the Company was transferred to the contributed surplus.
- (d) Pursuant to an ordinary resolution passed at the special general meeting held on 4 December 2003, the authorised share capital of the Company was increased from HK\$7,500,000 to HK\$25,00,0000 by the creation of an additional 1,750,000,000 ordinary shares of HK\$0.01 each.
- (e) Pursuant to a subscription agreement entered into between the Company and Sinolink on 26 September 2003, Sinolink subscribed 45,400,000 shares of the Company of HK\$0.01 each at a price of HK\$0.60 per share.
- (f) Pursuant to an ordinary resolution passed on a special general meeting held on 4 December 2003, the Company issued 490,347,621 rights shares of HK\$0.01 each at HK\$0.4 per rights share in proportion of nine rights shares for every five existing shares held.

29. SHARE OPTION SCHEME

The Company has a share option scheme (the “1993 Scheme”) under which the Board of Directors of the Company may, at its discretion, grant options to any eligible employees of the Group including directors of the Company or its subsidiaries, to subscribe for shares in the share capital of the Company at any time within ten years from 26 July 1993, the date of approval of the 1993 Scheme. The subscription price of the option granted under the 1993 Scheme is the higher of the nominal value of the shares and 80 per cent of the average of the closing price of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for the five trading days immediately preceding the date of the grant and option.

Pursuant to an ordinary resolution passed on the special general meeting held on 24 May 2002, the 1993 Scheme was terminated and a new share option scheme of the Company (the “2002 Scheme”) has been approved which will remain in force for a period of ten years. The board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the 2002 Scheme and the 1993 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company’s shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders.

A nominal consideration of HK\$1 is payable on the grant of an option. The exercise price is the higher of the closing price of the shares of the Company as stated on the Stock Exchange on the date of grant, the average of the closing prices of the share of the Company as stated on the Stock Exchange for the five business days immediately preceding the date of grant and the nominal value of the share of the Company.

No options were granted under the 2002 Scheme during the year.

The following tables disclose details of the Company’s share options held by employees (including directors) and movements in such holdings during the year:

Option scheme	Outstanding at 1.1.2003	Lapsed during year (Note 1)	Adjustment (Note 2)	Outstanding at 31.12.2003 (Note)
1993 Scheme	<u>51,680,000</u>	<u>–</u>	<u>(42,636,000)</u>	<u>9,044,000</u>
Option scheme	Outstanding at 1.1.2002	Lapsed during year	Adjustment	Outstanding at 31.12.2002 (Note)
1993 Scheme	<u>208,000,000</u>	<u>(156,320,000)</u>	<u>–</u>	<u>51,680,000</u>

Details of the share options under 1993 Scheme held by the directors included in the above table are as follows:

	Outstanding at 1 January	Lapsed during year (Note 1)	Adjustments (Note 2)	Outstanding at 31 December
Year 2003	<u>50,000,000</u>	<u>–</u>	<u>(41,250,000)</u>	<u>8,750,000</u>
Year 2002	<u>200,000,000</u>	<u>(150,000,000)</u>	<u>–</u>	<u>50,000,000</u>

Notes:

- (1) Lapsed arising on the resignation of employees (including directors) during the year.
- (2) As adjusted for rights issue and share consolidation during the year.

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Details of specific categories of options are as follows:

Option scheme	Date of grant	Exercise period	Exercise price HK\$	Number of options	
				2003	2002
1993 Scheme	24.5.2000	24.5.2000 – 23.5.2010	1.66	8,750,000	50,000,000
	26.6.2000	26.6.2000 – 25.6.2010	2.23	175,000	1,000,000
	26.3.2001	26.3.2001 – 25.3.2011	1.20	119,000	680,000
				<u>9,044,000</u>	<u>51,680,000</u>

No consideration was received during both years as no option was granted under both schemes.

No charge has been recognised in the income statement as no option was granted during the year.

30. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
At 1 January 2002	388,075	43,852	(431,842)	85
Capital reduction	–	326,903	–	326,903
Net loss for the year	–	–	(103,534)	(103,534)
At 31 December 2002	388,075	370,755	(535,376)	223,454
Capital reduction	–	88,535	–	88,535
Premium on rights issues and share subscription	263,668	–	–	263,668
Utilisation of contribution surplus against accumulated losses	–	(415,438)	415,438	–
Net loss for the year	–	–	(3,766)	(3,766)
At 31 December 2003	<u>651,743</u>	<u>43,852</u>	<u>(123,704)</u>	<u>571,891</u>

The contributed surplus represents the difference between the value of net assets of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries in 1991 and the credits arising from the changes in the share capital of the Company.

Under the provisions of the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The accumulated profits (losses) of the Group include approximately HK\$25,065,000 (2002: HK\$25,065,000) attributable to the associates.

The Company did not have any distributable reserves as at 31 December 2003 and 2002.

31. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group.

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	—	—	—
Charge (credit) for the year	934	(934)	—
At 31 December 2002 and 1 January 2003	934	(934)	—
Charge (credit) for the year	559	(559)	—
At 31 December 2003	<u>1,493</u>	<u>(1,493)</u>	<u>—</u>

No provision for deferred taxation has been made in the financial statements in respect of the estimated tax losses of approximately HK\$19,406,000 (2002: HK\$65,955,000) available to offset the future assessable profit as it is not certain that the assessable profits will be available against which deductible temporary difference can be utilised.

32. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2002, the Group acquired the entire issued share capital of Sinolink Industrial Limited (“Sinolink Industrial”) for a consideration of HK\$222,498,000. Sinolink Industrial is interested in 70% of the registered capital of Shenzhen Fuhuade Electric Power Co., Ltd. (“Fuhuade”), a sino-foreign equity joint venture company established in PRC, through a wholly owned subsidiary, Sinolink Electric Power Company Limited (“Sinolink Electric Power”). This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$223,628,000. In addition, a profit guarantee is provided by Sinolink as detailed in note 39(a).

	2002 <i>HK\$'000</i>
Net assets (liabilities) acquired:	
Property, plant and equipment	284,886
Interests in associates	564
Inventories	15,073
Debtors, deposits and prepayments	13,131
Bank balances and cash	83,479
Creditors and accrued charges	(27,195)
Loan from a minority shareholder of a subsidiary	(27,301)
Shareholders' loan	(137,902)
Taxation payables	(483)
Bank borrowings	(174,144)
Minority interests	(31,238)
	<u>(1,130)</u>
Goodwill	148,628
Total consideration	<u>147,498</u>

2002
HK\$'000

Satisfied by:

Cash paid	163,400
Deferred consideration (shareholder loan)	197,000
Debt assignment	(137,902)
Receivable in respect of adjustment to purchase consideration	(75,000)
	<u>147,498</u>

Net cash outflow arising on acquisition:

Cash consideration	(163,400)
Bank balances and cash acquired	83,479
	<u>(79,921)</u>

The subsidiaries acquired during the year ended 31 December 2002 contributed HK\$114,792,000 to the Group's turnover and HK\$15,191,000 to the Group's loss from operations.

33. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2002, certain associates and investment securities were disposed of through the sale of certain subsidiaries. The net assets in aggregate of those subsidiaries at the date of disposal are as follows:

2002
HK\$'000

Net assets disposed of:

Interests in associates	34,764
Investments in securities	7,000
Debtors, deposits and prepayments	18
Creditors and accrued charges	(1)
	<u>41,781</u>
Translation reserve released	18
Loss on disposal	(2,135)
	<u>39,664</u>

Net cash inflow arising on disposal:

Cash consideration	39,679
Less: Deposit received in prior year	(13,531)
Less: Legal and professional fee	(15)
	<u>26,133</u>

The subsidiaries disposed of during the year ended 31 December 2002 contributed an insignificant amount to the Group's turnover and loss from operations.

34. PLEDGE OF ASSETS

THE GROUP
2003 **2002**
HK\$'000 *HK\$'000*

To secure the general banking facilities granted to the Group:

Investment properties	—	—
Bank deposits	13,861	4,091
	<u>13,861</u>	<u>4,091</u>

The shares in Sinolink Industrial and Sinolink Electric Power are pledged to Sinolink to secure a loan from Sinolink of HK\$75,000,000 (2002: HK\$197,000,000).

Details of pledge of assets in respect of bank borrowings are set out in note 27 to the financial statements.

35. CONTINGENT LIABILITIES

THE GROUP

In August 2003, a supplier filed an application of arbitration against Fuhuade in respect of a claim for extra contract sum due to the additional work involved during the installation of the new generating units. The extra contract sum claimed, together with interest thereon, amounts approximately HK\$28,015,000. Fuhuade has instructed a firm of lawyers to act on its behalf in respect of the arbitration. In the opinion of the directors, as the arbitration is in progress and the outcome of this cannot be ascertained at this moment, no provision for the amount claimed has been made by the Group as at 31 December 2003.

36. OPERATING LEASE ARRANGEMENT

At the balance sheet date, the Group had no outstanding commitments under non-cancellable operating leases in respect of rented properties, which fall due as follows:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	4,940	662
In the second to fifth year inclusive	9,861	—
	<u>14,801</u>	<u>662</u>

The Company did not have any lease commitments at 31 December 2003.

37. CAPITAL COMMITMENTS

THE GROUP
2003 **2002**
HK\$'000 *HK\$'000*

Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>353,118</u>	<u>13,900</u>
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	<u>—</u>	<u>85,915</u>

38. RETIREMENT BENEFITS SCHEME

In December 2000, the Group enrolled all eligible employees in a Mandatory Provident Fund (“MPF”) Scheme. The assets of the MPF Scheme are held separately from those of the Group under the control of trustees. The retirement benefit cost for the MPF charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the MPF Scheme.

39. RELATED PARTY TRANSACTIONS

Details of transactions with related parties for the year ended 31 December 2003 are as follows:

- (a) In relation to the acquisition of the entire issued share capital of Sinolink Industrial Limited from Sinolink on 8 March 2002, a profit guarantee was provided by Sinolink under the Acquisition Agreement that if the profits after taxation of Fuhuade arising from its ordinary activities and excluding any extraordinary item (i) for the two financial years ended 31 December 2003 in aggregate was less than RMB135,000,000; or (ii) for the year ended 31 December 2003 was less than RMB110,000,000 (each being the “Relevant Guaranteed Profit”), Sinolink should repay to the Company an amount equivalent to the shortfall between the Relevant Guaranteed Profits and the corresponding profit.

As at 31 December 2002, an estimated provision of HK\$75,000,000 was adjusted to the purchase consideration for the potential shortfall of the Relevant Guaranteed Profit.

The profits after taxation of Fuhuade arising from its ordinary activities and excluding any extraordinary item for the two financial years ended 31 December 2003 in aggregate have exceeded RMB135,000,000 and accordingly the adjustment to the purchase consideration of HK\$75,000,000 was reversed in the current year.

- (b) During the year, the Group paid interest expenses of approximately HK\$4,456,000 (2002: HK\$3,886,000) to Sinolink in respect of a shareholder loan. The balance of the loan remains payable on demand and carries interest at the rate of 3% per annum payable semi-annually.
- (c) During the year ended 31 December 2003, the Group received management fee income of HK\$5,540,000 from eGoChina Holdings Limited (“eGoChina”), an associate of the Group. The investment in eGoChina was fully impaired in previous year. The management fee is determined with reference to actual cost.
- (d) On 6 March 2003, Fuhuade entered into a loan agreement with a bank for an amount up to US\$25,000,000. The loan is repayable over a term of three years (“Term”). The Company provided a guarantee of 70% of the loan, amounting US\$17,500,000. The remaining 30% is guaranteed by Shenzhen Sinolink. The guarantee is for the period of the Term plus two years thereafter.

The loan was replaced by another loan facility for an amount up to US\$26,000,000 on 30 December 2003. The new loan facility was secured by the property, plant and equipment of Fuhuade. The abovementioned corporate guarantee was cancelled accordingly.

- (e) On 29 July 2003, Fuhuade entered into a loan agreement with a bank for an amount of RMB100,000,000. The loan is repayable over a term of three years (“New Term”). The Company provided a guarantee of 70% of the loan. The remaining 30% is guaranteed by Shenzhen Sinolink. The guarantee is for the period of the New Term plus two years thereafter.

The loan was replaced by another loan facility for an amount up to RMB300,000,000 on 29 October 2003. The abovementioned corporate guarantee was cancelled accordingly.

Details of balances with related parties and other transactions with related parties are also set out in other notes to the financial statements.

- (f) During the year ended 31 December 2003, the Group paid office expenses of approximately HK\$788,000 (2002: HK\$Nil) to Sinolink. The office expense is determined with reference to actual costs incurred.

40. POST BALANCE SHEET EVENTS

Pursuant to a resolution passed at a special general meeting held on 30 March 2004. The Company issued 1,525,525,936 offer shares of HK\$0.01 each at the price of HK\$0.4 per offer share on the basis of two offer shares for every existing share held.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

a. Details of the Company’s principal subsidiaries as at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation/ operation	Type of company	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
Alyo Limited	Hong Kong	Limited liability company	HK\$2	–	100	Property investment
Eastern Pith Investment Limited	Hong Kong	Limited liability company	HK\$100	–	100	Property investment
Hanka Limited	Hong Kong	Limited liability company	HK\$2	–	100	Holding of club membership
Peaceway Investment Limited	Hong Kong	Limited liability company	HK\$100	–	100	Property investment
Enerchina Resources Limited	Hong Kong	Limited liability company	HK\$2	100	–	Provision of management services
Sinolike Investment Limited	Hong Kong	Limited liability company	HK\$2	–	100	Property investment
Xeno International Limited	Hong Kong	Limited liability company	HK\$2	–	100	Property investment
New China Control Systems Limited	BVI	Limited liability company	US\$1	100	–	Investment holding
Rado International Limited	BVI	Limited liability company	US\$1	100	–	Investment holding
Sinolink Industrial Limited	BVI	Limited liability company	US\$50,001	100	–	Investment holding
Sinolink Electric Power Company Limited	Hong Kong	Limited liability company	HK\$2 ordinary shares and \$100,000 non-voting deferred shares	–	100	Investment holding
Shenzhen Fuhuade Electric Power Company Limited	PRC	Sino-foreign equity joint venture	RMB100,000,000	–	70	Electricity supplies

b. Details of the Group’s principal associate as at 31 December 2003 is as follows:

Name of Company	Place of incorporation/ registration	Proportion of nominal value of issued ordinary share capital/ registered capital held by the Group	Principal activities
eGoChina Holdings Limited	Cayman Island	52%	Investment holding

None of the subsidiaries had any loan capital outstanding at the end of the year, or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the period or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

C.

INTERIM FINANCIAL INFORMATION (reproduced from the Company’s interim report for the six months ended 30 June 2004)

The following has been extracted from the unaudited consolidated interim report of the Company for the six months ended 30 June 2004.

Condensed Consolidated Income Statement

For the six months ended 30 June 2004

	Notes	Six months ended	
		30.6.2004	30.6.2003
		HK\$'000 (unaudited)	HK\$'000 (unaudited)
Turnover	3	364,675	187,786
Cost of sales		(287,664)	(162,624)
Gross profit		77,011	25,162
Other operating income		2,727	5,988
Administrative expenses		(14,484)	(10,404)
Other operating expenses		(5,841)	(3,971)
Profit from operations		59,413	16,775
Finance costs		(7,555)	(6,930)
Loss on disposal of discontinued operation		–	(126)
Profit before taxation		51,858	9,719
Taxation	5	(4,458)	–
Profit after taxation		47,400	9,719
Minority interests		(17,532)	(4,652)
Net profit for the period		29,868	5,067
Earnings per share	7		
– Basic		HK 1.55 cents	HK 1.04 cents
– Diluted		HK 1.54 cents	N/A

APPENDIX II FINANCIAL INFORMATION ON THE ENERCHINA GROUP

Condensed Consolidated Balance Sheet

At 30 June 2004

	NOTES	30.6.2004 HK\$'000 (unaudited)	31.12.2003 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	8	1,010,348	628,993
Goodwill		199,402	204,993
Investments in securities		91,773	84,674
		<u>1,301,523</u>	<u>918,660</u>
Current assets			
Inventories		119,349	38,700
Trade and other receivables	9	174,995	94,284
Amount due from an associate		46	46
Dividend receivable		3,475	3,475
Pledged bank deposit	10	83,372	13,861
Bank balances and cash		1,090,027	348,794
		<u>1,471,264</u>	<u>499,160</u>
Current liabilities			
Trade and other payables	11	144,146	91,869
Tax liabilities		13,357	8,899
Amount due to a shareholder		15,644	15,686
Loan from a minority shareholder of a subsidiary		12,914	12,914
Loan from a shareholder		–	75,000
Secured bank borrowings – due within one year	12	407,100	147,821
		<u>593,161</u>	<u>352,189</u>
Net current assets		<u>878,103</u>	<u>146,971</u>
Total assets less current liabilities		2,179,626	1,065,631
Non-current liabilities			
Secured bank borrowings – due after one year	12	803,742	337,680
		<u>1,375,884</u>	<u>727,951</u>
Minority interests		<u>84,445</u>	<u>66,913</u>
		<u>1,291,439</u>	<u>661,038</u>
Capital and Reserves			
Share capital	13	22,883	7,628
Reserves		1,268,556	653,410
		<u>1,291,439</u>	<u>661,038</u>

APPENDIX II FINANCIAL INFORMATION ON THE ENERCHINA GROUP

Condensed Consolidated Statement of Changes in Equity

For the Six months ended 30 June 2004

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated profits (losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	36,322	388,075	326,903	(471,237)	280,063
Rights issue – February 2003	54,484	54,484	–	–	108,968
Issue expenses – February 2003	–	(3,614)	–	–	(3,614)
Rights issue – December 2003	4,903	191,236	–	–	196,139
Issue expenses – December 2003	–	(4,192)	–	–	(4,192)
Shares subscription	454	26,786	–	–	27,240
Shares subscription expenses	–	(1,032)	–	–	(1,032)
Capital reduction	(88,535)	–	88,535	–	–
Utilisation of contributed surplus against accumulated losses	–	–	(415,438)	415,438	–
Net profit for the year	–	–	–	57,466	57,466
Balance at 1 January 2004	7,628	651,743	–	1,667	661,038
Open offer – March 2004	15,255	594,955	–	–	610,210
Issue expenses – March 2004	–	(9,677)	–	–	(9,677)
Net profit for the period	–	–	–	29,868	29,868
Balance at 30 June 2004	<u>22,883</u>	<u>1,237,021</u>	<u>–</u>	<u>31,535</u>	<u>1,291,439</u>
At 1 January 2003	36,322	388,075	326,903	(471,237)	280,063
Rights issue – February 2003	54,484	54,484	–	–	108,968
Issue expenses – February 2003	–	(3,614)	–	–	(3,614)
Capital reduction	(88,535)	–	88,535	–	–
Net profit for the period	–	–	–	5,067	5,067
Balance at 30 June 2003	<u>2,271</u>	<u>438,945</u>	<u>415,438</u>	<u>(466,170)</u>	<u>390,484</u>

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2004

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash outflow from operating activities	(20,010)	(46,715)
Net cash outflow from investing activities	(482,474)	(31,334)
Net cash inflow from financing activities	1,243,717	109,384
Increase in cash and cash equivalents	741,233	31,335
Bank balances and cash at beginning of the period	348,794	85,236
Bank balances and cash at end of the period	1,090,027	116,571

Notes to the Condensed Financial Statements

For the six months ended 30 June 2004

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2003.

3. SEGMENT INFORMATION

For management purposes, the Group is organised into two operating divisions – electricity supplies and investment holding. The property leasing division ceased to operate in 2003.

Business segments

Six months ended 30 June 2004

	Electricity supplies HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
Turnover	<u>364,675</u>	<u>–</u>	<u>364,675</u>
Segment result	<u>65,027</u>	<u>–</u>	65,027
Interest income			478
Unallocated corporate expenses			<u>(6,092)</u>
Profit from operations			<u>59,413</u>

Six months ended 30 June 2003

	Continuing operations		Discontinued operation	Consolidated HK\$'000
	Electricity supplies HK\$'000	Investment holding HK\$'000	Property leasing HK\$'000	
Turnover	<u>187,786</u>	<u>–</u>	<u>–</u>	<u>187,786</u>
Segment result	<u>19,709</u>	<u>1,818</u>	<u>(10)</u>	21,517
Interest income				310
Unallocated corporate expenses				<u>(5,052)</u>
Profit from operations				<u>16,775</u>

4. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK\$24,987,000 (1.1.2003 to 30.6.2003: HK\$17,436,000) was charged in respect of the Group’s property, plant and equipment and amortisation of HK\$5,591,000 (1.1.2003 to 30.6.2003: HK\$3,716,000) was charged in respect of the goodwill arising from acquisition of subsidiaries.

5. TAXATION

	THE GROUP	
	Six months ended	
	30.6.2004	30.6.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
PRC income tax	(4,458)	—
Taxation attributable to the Company and its subsidiaries	(4,458)	—

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred tax losses in both periods.

Pursuant to relevant laws and regulations in the People's Republic of China (the "PRC"), one of the Group's subsidiaries operating in the PRC is entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from their first profit making year of operations and thereafter, that subsidiary is entitled to a 50% relief from PRC Enterprise Income Tax for the following six years. The reduced tax rate for the relief period is 7.5%.

No provision for deferred taxation has been recognised in the condensed financial statements as the amount involved is insignificant.

6. DIVIDENDS

The directors do not declare an interim dividend (1.1.2003 to 30.6.2003: nil).

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended	
	30.6.2004	30.6.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Net profit for the purposes of basic and diluted earnings per share	29,868	5,067
	30.6.2004	30.6.2003
	<i>Number of shares</i>	
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,933,087,279	488,823,695
Effect of dilutive share options	6,676,427	N/A
Weighted average number of shares for the purpose of diluted earnings per share	1,939,763,706	488,823,695

The weighted average number of ordinary shares for the purposes of basic earnings per share has been adjusted for the open offer during the period.

No diluted earnings per share had been calculated for the prior period as the exercise price of the Company's options was higher than the average market price for shares in that period.

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$406,342,000 (1.1.2003 to 30.6.2003: HK\$39,509,000) on acquisition of property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its customers.

Included in trade and other receivables are trade receivables totalling HK\$123,723,000 (31.12.2003: HK\$76,879,000), the aged analysis of which is as follows:

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Aged:		
0 to 60 days	<u>123,723</u>	<u>76,879</u>

10. PLEDGED OF ASSETS

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
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To secure the general banking facilities granted to the Group:

Bank deposits	<u>83,372</u>	<u>13,861</u>
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Details of pledge of assets in respect of bank borrowings are set out in note 12 to the condensed financial statements.

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$87,121,000 (31.12.2003: HK\$24,650,000), the aged analysis of which is as follows:

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Aged:		
0 to 60 days	86,584	22,882
61 to 120 days	537	–
Over 180 days	–	1,768
	<u>87,121</u>	<u>24,650</u>

12. SECURED BANK BORROWINGS

During the period, the Group borrowed and repaid bank loans of HK\$761,132,000 and HK\$35,791,000 respectively. The loans bear interest at market rates and are repayable in one to six years.

At the balance sheet date, an aggregate amount of RMB870,000,000 (equivalent to approximately HK\$813,000,000) and US\$33,300,000 (equivalent to approximately HK\$259,000,000) were secured by the plant and machinery and leasehold land and buildings of the Group with a carrying value of HK\$914,904,000 and HK\$92,410,000 respectively.

13. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2004	2,500,000,000	25,000
Increase of authorised share capital (<i>note</i>)	<u>2,500,000,000</u>	<u>25,000</u>
At 30 June 2004	<u>5,000,000,000</u>	<u>50,000</u>
Issued and fully paid:		
At 1 January 2004	762,762,968	7,628
Open offer – March 2004 (<i>note</i>)	<u>1,525,525,936</u>	<u>15,255</u>
At 30 June 2004	<u>2,288,288,904</u>	<u>22,883</u>

Note:

Pursuant to a resolution passed at the special general meeting held on 29 March 2004, the share capital of the Company was changed as follows:

- The authorised share capital of the Company was hereby increased from HK\$25,000,000 to HK\$50,000,000 by the creation of 2,500,000,000 additional ordinary shares of HK\$0.01 each.
- The issue by way of an open offer of 1,525,525,936 new ordinary shares of HK\$0.01 each of the Company at HK\$0.4 per share on the basis of two offering shares for every existing share held.

14. OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented properties, which fall due as follows:

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Within one year	4,940	4,940
In the second to fifth year inclusive	7,391	9,861
	<u>12,331</u>	<u>14,801</u>

15. RELATED PARTY TRANSACTIONS

- (a) During the period ended 30 June 2004, the Group paid office expenses of HK\$394,000 (1.1.2003 to 30.6.2003: HK\$394,000) to Sinolink Worldwide Holdings Limited (“Sinolink”), a substantial shareholder of the Company. The office expense is determined with reference to actual costs incurred.
- (b) The Group incurred an interest expense of HK\$152,000 (1.1.2003 to 30.6.2003: HK\$2,640,000) in respect of the shareholder’s loan from Sinolink. The shareholder’s loan has been fully repaid during the period.

16. CAPITAL COMMITMENTS

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>332,534</u>	<u>353,118</u>

D. INDEBTEDNESS

At the close of business on 31 October 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the Enerchina Group had outstanding secured bank borrowings of approximately HK\$1,183 million and an unsecured advance of HK\$12.2 million from a minority shareholder of Shenzhen Fuhuade Electric Power Co., Ltd., a subsidiary of the Company incorporated in the PRC owned as to 70% by the Company. The bank borrowings were secured over the fixed assets of the Enerchina Group and were repayable within 1 to 6 years.

A supplier of the Enerchina Group filed an arbitration in August 2003 against Fuhuade Power Plant claiming an amount of approximately HK\$28.0 million. The arbitration is still in progress and the outcome of such cannot be ascertained.

Save as aforesaid and apart from intra-group liabilities, the Enerchina Group did not have outstanding as at 31 October 2004 any bank overdrafts or loans, or other similar indebtedness mortgages, charges, debentures or any guarantees or other material contingent liabilities.

E. MATERIAL CHANGE

Save as disclosed in the letter from the Board of Enerchina, the section headed “Interim Financial Information” set out in this Appendix II, the sections headed “Material Contracts” and “Litigation” in Appendix IV to this document, in particular the following transactions:

- (1) the issue by way of an open offer of 1,525,525,936 Shares at HK\$0.40 per Share by the Company on the basis of two offer Shares for every existing Share held by certain qualifying Shareholders raising net proceeds of approximately HK\$600 million (the “Open Offer”). The Open Offer was completed in April 2004; and
- (2) the disposal by the Company of its entire interest in New China to an independent third party and, amongst others, the cancellation of the Company’s existing shareholder’s loan due from New China, for a cash consideration of US\$23,500,000 as announced by the Company on 17 December 2004, and

the discloseable transaction (as defined under the Listing Rules) announced by the Company on 1 March 2004 whereby Shenzhen Fuhuade Electric Power Co., Ltd., a subsidiary of the Company incorporated in the PRC owned as to 70% by the Company (“Fuhuade”), entered into a purchase agreement dated 12 February 2004 under which Fuhuade would purchase certain equipment and services from an independent third party for a consideration of US\$21,447,700, the Enerchina Directors are not aware of any material change in the financial or trading position or prospects of the Enerchina Group since 31 December 2003, the date to which the latest published audited financial statements of the Company were made up.

1. RESPONSIBILITY

- 1.1 The issue of this document has been approved by the Offeror Directors.
- 1.2 This document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Offeror and the Offers.
- 1.3 The Offeror Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the Enerchina Group) and confirm, having made all reasonable enquiries, that, to the best of their knowledge, the opinions expressed in this document (other than as specified above) have been arrived at after due and careful consideration and there are no other facts (other than that relating to the Enerchina Group) not contained in this document the omission of which would make any of the statements in this document misleading.
- 1.4 The information relating to Morgan Stanley included in this document has been based on the information provided by Morgan Stanley. Morgan Stanley accepts full responsibility for the accuracy of the information relating to Morgan Stanley contained in this document and confirms, having made all reasonable enquiries, that, to the best of their knowledge, the opinions expressed by Morgan Stanley in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any of the statements relating to Morgan Stanley in this document misleading.

2. DISCLOSURE OF INTERESTS IN THE SECURITIES OF ENERCHINA AND THE OFFEROR

- 2.1 Save as disclosed in the sections headed “Share Offer”, “Option Offer” and “Interests of the Offeror and Parties Acting in Concert with it in Enerchina” in the letter from Morgan Stanley set out in this document:
 - (a) neither the Offeror, nor any person acting in concert with it for the purpose of the Takeovers Code, owned or controlled;
 - (b) none of the Offeror Directors (including their respective spouses, children under the age of 18, related trusts and companies controlled by any of them) was beneficially interested in; and
 - (c) none of the persons who, prior to the posting of this document, have irrevocably committed themselves to accept or reject the Offer, owned or controlled,

directly or indirectly, any Enerchina Shares as at the Latest Practicable Date and, save as disclosed in the section headed “Interests of the Offeror and Parties Acting in Concert with it” in the letter from Morgan Stanley set out in this document, no such person has dealt for value in any Enerchina Shares, options, warrants, derivatives or any securities convertible into Enerchina Shares, during the period beginning six months prior to the date of the Announcement and ending with the Latest Practicable Date.

- 2.2 No arrangement, agreement or undertaking has been entered into by the Offeror, the Offeror Directors or any persons acting in concert with any of them for the transfer by any of them to any other person of any Enerchina Shares acquired pursuant to the Offer.
- 2.3 There was no agreement, understanding or benefit which shall be given by the Offeror to any Enerchina Director as compensation for loss of office or otherwise in connection with the Offer.

- 2.4 As at the Latest Practicable Date, save as disclosed in the section headed “The Option Offer” in the letter from Morgan Stanley set out in this document, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it and any Enerchina Director or recent Enerchina Directors, Enerchina Shareholders or recent Enerchina Shareholders having any connection with or dependence upon the Offer.
- 2.5 As at the Latest Practicable Date, no arrangement has been entered into by the Offeror or any person acting in concert with it of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the relevant securities (as defined in the Takeovers Code) of Enerchina or Sinolink.

3. INFORMATION ON THE OFFEROR

The Offeror is listed on the Main Board of the Hong Kong Stock Exchange. The Offeror Directors are Mr. Ou Yaping, Mr. Tang Yui Man Francis, Mr. Chen Wei, Mr. Law Sze Lai, Mr. Li Zhi Xiang, Mr. Xin Luo Lin and Mr. Davin A. MacKenzie.

The registered office of the Offeror is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The registered address of Asia Pacific Promotion Limited is PO Box 3149, Pesea Estate, Road Town, Tortola, British Virgin Islands. The business address of Mr. Ou is 28th Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.

As at the Latest Practicable Date, Asia Pacific Promotion Limited was the largest shareholder of the Offeror holding 58.89% of its issued share capital. Asia Pacific Promotion Limited is held by Mr. Ou. The director of Asia Pacific Promotion Limited is Mr. Ou.

4. CONSENT AND QUALIFICATION

Morgan Stanley has given and has not withdrawn its written consent to the issue of this document with the inclusion therein of its letter and the references to its name in the form and context in which it appears.

Morgan Stanley is licensed for Type 1 regulated activity (dealing with securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance) and Type 7 regulated activity (providing automated trading services) under the Securities and Futures Ordinance.

The registered office of Morgan Stanley is situated at Rooms 4603-4609, 46th Floor, Jardine House, One Connaught Place, Central, Hong Kong.

5. MISCELLANEOUS

The English text of this document and the Form(s) of Acceptance shall prevail over the Chinese text for the purpose of interpretation.

1. MARKETING PRICES

The table below shows the closing prices of the Enerchina Shares as recorded on the Stock Exchange:

Date	Closing Price per Share HK\$
30 June 2004 ^(a)	0.44
30 July 2004 ^(a)	0.50
31 August 2004 ^(a)	0.51
30 September 2004 ^(a)	0.51
29 October 2004 ^(a)	0.50
30 November 2004 ^(a)	0.60
2 December 2004 ^(b)	0.59
Latest Practicable Date	0.62

Notes:

- (a) On the last day on which dealings took place in each of the six months immediately preceding the date of the Announcement.
- (b) On 2 December 2004, being the last trading day for Enerchina Shares before the suspension of trading prior to the release of the Announcement on 6 December 2004.

2. RESPONSIBILITY STATEMENT

- (a) The issue of this document has been approved by the Enerchina Directors.
- (b) This document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to Enerchina.
- (c) The information contained in this document relating to the Enerchina Group has been supplied by the Enerchina Directors. The Enerchina Directors jointly and severally accept full responsibility for the accuracy of such information and information relating to the Enerchina Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by the Company relating to the Enerchina Group in this document have been arrived at after due and careful consideration and there are no other facts relating to the Enerchina Group the omission of which would make any statement contained in this document misleading.
- (d) The information relating to Dao Heng Securities included in this document has been based on the information provided by Dao Heng Securities. Dao Heng Securities accepts full responsibility for the accuracy of the information relating to Dao Heng Securities contained in this document and confirms, having made all reasonable enquiries, that, to the best of their knowledge, the opinions expressed by Dao Heng Securities in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any of the statements relating to Dao Heng Securities in this document misleading.

3. SHARE CAPITAL

The authorised and issued share capital of Enerchina as at the Latest Practicable Date were as follows:

Authorised:

HK\$50,000,000 comprising 5,000,000,000 Enerchina Shares of HK\$0.01 each

Issued and fully paid:

HK\$22,909,339 comprising 2,290,933,904 Enerchina Shares of HK\$0.01 each

All the Enerchina Shares rank *pari passu* in all respects are regards rights to dividends, voting and return of capital.

1,528,170,936 Enerchina Shares have been issued since 31 December 2003.

The Enerchina Shares are listed and traded on the Stock Exchange. The Enerchina Shares are not listed, or dealt in, on any other stock exchange, nor is any listing of or permission to deal in the Enerchina Shares being sought on any other stock exchange.

As at the Latest Practicable Date, the Company had 115,062,000 outstanding Options. The exercise in full of the Options would result in the issue of an additional 115,062,000 Shares.

The terms of the outstanding Options are as follows:

Exercise period	Exercise price (HK\$)	Number of outstanding Options
24.05.2000 – 23.05.2010	0.55	26,250,000
09.06.2004 – 08.06.2014	0.44	55,336,000
09.06.2005 – 08.06.2014	0.44	11,921,313
09.06.2006 – 08.06.2014	0.44	9,633,313
09.12.2006 – 08.06.2014	0.44	9,633,374
20.10.2005 – 19.10.2015	0.50	2,288,000
Total:		115,062,000

Save as disclosed above, as at the Latest Practicable Date, Enerchina did not have any outstanding options, warrants, derivatives or other securities carrying rights of conversion into or exchange or subscription for Enerchina Shares.

4. DISCLOSURE OF INTERESTS

(a) Directors’ interests and short positions in the securities of Enerchina and its associated corporations (as defined under SFO) as at the Latest Practicable Date

(i) Enerchina Directors’ long positions in the Shares

Name of Enerchina Directors	Capacity	Number of Shares held	Interest in underlying Shares pursuant to the Options	Aggregate interest	Percentage of the issued share capital of the Company
Leng Xuesong	Beneficial owner	–	5,000,000	5,000,000	0.22%
Lu Yungang	Beneficial owner	–	2,288,000	2,288,000	0.10%
Davin A. MacKenzie	Beneficial owner	–	2,288,000	2,288,000	0.10%
Ou Yaping	Held by controlled corporation and beneficial owner	1,147,680,775 (Note)	2,288,000	1,149,968,775	50.20%
Sun Qiang Chang	Beneficial owner	–	26,250,000	26,250,000	1.15%
Tang Yui Man Francis	Beneficial owner	–	22,880,000	22,880,000	1.00%
Xiang Ya Bo	Beneficial owner	–	22,880,000	22,880,000	1.00%
Xin Luo Lin	Beneficial owner	–	2,288,000	2,288,000	0.10%
Xu Xinghai	Beneficial owner	–	2,000,000	2,000,000	0.09%

Note: This number of Shares represents the Shares in the existing share capital of the Company in which Sinolink is interested (Mr. Ou, through his wholly-owned company, Asia Pacific Promotion Limited (“Asia Pacific”), holds approximately 58.89% of the issued share capital of Sinolink and is therefore deemed to be interested in all the Shares in which Sinolink is interested).

(ii) Enerchina Directors’ interests and short positions in shares of associated corporations (as defined under SFO)

Name of Enerchina Directors	Name of associated corporations	Capacity	Number of shares Long position/ (Short position)	Approximate percentage of the issued share of the associated corporations
Ou Yaping	Sinolink	Beneficial owner and interest of controlled corporation	1,380,697,920 (Note 1)	59.17%
	Panva Gas Holdings Limited (“Panva Gas”)	Interest of controlled corporation	560,471,587 (Note 2)	59.48%
			(19,230,769)	(2.04%)
Tang Yui Man Francis	Panva Gas	Beneficial owner	9,400,000 (Note 3)	1.00%

Notes:

1.

This number of shares represents: (i) Mr. Ou and his family’s interests of 6,475,920 shares; and (ii) corporate interest of 1,374,222,000 shares held by Asia Pacific.
2.

This number of shares represents: (i) 3,600,000 share options held by Mr. Ou; and (ii) 556,871,587 shares beneficially owned by Asia Pacific.
3.

This number of shares represents: (i) 3,960,000 shares options held by Mr. Tang; and (ii) 5,440,000 shares beneficially owned by Mr Tang.

(iii) Enerchina Directors’ interest in the Options to subscribe for Enerchina Shares (Note)

Name of Enerchina Directors	Date of grant	Money paid for the grant of the Options HK\$	Exercise period	Exercise price HK\$	Number of Options/ underlying Shares	Percentage of the issued share capital of the Company
Leng Xuesong	09.06.2004	1.00	09.06.2004 – 08.06.2014	0.44	5,000,000	0.22%
Lu Yungang	09.06.2004	1.00	09.06.2005 – 08.06.2014	0.44	2,288,000	0.10%
Davin A. MacKenzie	20.10.2004	1.00	20.10.2005 – 19.10.2015	0.50	2,288,000	0.10%
Ou Yaping	09.06.2004	1.00	09.06.2004 – 08.06.2014	0.44	2,288,000	0.10%
Sun Qiang Chang	24.05.2000	1.00	24.05.2000 – 23.05.2010	0.55	26,250,000	1.15%
Tang Yui Man Francis	09.06.2004	1.00	09.06.2004 – 08.06.2014	0.44	22,880,000	1.00%
Xiang Ya Bo	09.06.2004	1.00	09.06.2004 – 08.06.2014	0.44	22,880,000	1.00%
Xin Luo Lin	09.06.2004	1.00	09.06.2004 – 08.06.2014	0.44	2,288,000	0.10%
Xu Xinghai	09.06.2004	1.00	09.06.2005 – 08.06.2014	0.44	666,666	0.03%
	09.06.2004		09.06.2006 – 08.06.2014	0.44	666,666	0.03%
	09.06.2004		09.12.2006 – 08.06.2014	0.44	666,668	0.03%

Note: Each of the Enerchina Directors has given an unconditional and irrevocable undertaking to Sinolink that (1) he will not exercise the Options held by him before the end of the Offer Period (as defined in the Takeovers Code) for the Offers; and (2) he will not accept the Option Offer for the Options held by him.

(iv) *Enerchina Directors’ interest in options to subscribe for shares of associated corporations (as defined under SFO)*

Name of Enerchina Directors	Name of associated corporations	Date of grant	Money paid for the grant of the options HK\$	Exercise period	Exercise price HK\$	Number of options/ underlying shares
Ou Yaping	Panva Gas	04.04.2001	0.50	01.01.2003 – 03.04.2011	0.475	1,800,000
		04.04.2001	0.50	01.01.2004 – 03.04.2011	0.475	1,800,000
Tang Yui Man Francis	Panva Gas	13.11.2001	1.00	13.11.2002 – 13.02.2007	0.940	960,000
		19.11.2004	1.00	31.12.2005 – 30.03.2011	3.500	900,000
				31.12.2006 – 30.03.2011	3.500	900,000
				31.12.2007 – 30.03.2011	3.500	1,200,000

As at the Latest Practicable Date, save as disclosed above, the Enerchina Directors had no interests or short positions in the Enerchina Shares, options, warrants, derivatives, or other securities carrying rights of conversion into or exchange or subscription for shares of Enerchina and its associated corporations (within the meaning of Part XV of the SFO) which were required, inter alia, to be notified to Enerchina and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transaction by Directors of Listed Companies contained in the Listing Rules, to be notified to Enerchina and the Stock Exchange or which were required, pursuant to the requirements of the Takeovers Code, to be disclosed herein.

(b) Substantial Shareholders

As at the Latest Practicable Date, those persons (other than the Enerchina Directors and chief executive of Enerchina) having interest of 5% or more in Enerchina’s issued Shares as recorded in the register of substantial shareholders maintained under Section 336 of the SFO were as follows:

Name of shareholders	Capacity	Aggregate interest	Approximate percentage of the issued share capital
Sinolink	Beneficial owner and interest of controlled corporation	1,147,680,775 (Note 1)	50.10%
Asia Pacific	Interest of controlled corporation	1,147,680,775	50.10%
Smart Orient Investments Limited	Beneficial owner	575,792,809	25.13%
Warburg Pincus & Co.	Interest of controlled corporation	515,524,377	22.50%
Altantic Cay International Limited (“Altantic Cay”)	Beneficial owner	404,548,779	17.66%
Warburg Pincus Ventures International, L.P.	Interest of controlled corporation	404,548,779	17.66%
Warburg Pincus Equity Partners, L.P.	Interest of controlled corporation	404,548,779	17.66%

Notes:

1.
- This number of Shares represents the aggregate of: (a) 571,887,966 Shares held directly by Sinolink; and (b) the number of Shares in which Smart Orient is interested as disclosed above.
2.
- Asia Pacific is interested in approximately 58.89% in Sinolink and it is deemed to be interested in all the Shares held by Sinolink.
3.
- Warburg Pincus Ventures International, L.P. (“WPV”) is interested in 50% of the issued share capital of Atlantic Cay and it is deemed to be interested in all the Shares held by Atlantic Cay.
4.
- Warburg Pincus Equity Partners, L.P. (“WPE”) is interested in 50% of the issued share capital of Atlantic Cay and is deemed to be interested in all the Shares held by Atlantic Cay.
5.
- Warburg Pincus & Co. (“WP”) is the general partner of the limited partnerships WPE and WPV, and is deemed to have an interest in all the Shares held by these companies. These Shares represent the aggregate of the Shares held by the funds managed by WP and all the Shares held by Atlantic Cay.

(c) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

Save as disclosed in (b) above, as at the Latest Practicable Date, so far as was known to the Enerchina Directors, no other person had, or was deemed or taken to have an interest or short position in Enerchina Shares which would fall to be disclosed to Enerchina and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(d) Dao Heng Securities

As at the Latest Practicable Date, Dao Heng Securities was not beneficially interested, directly or indirectly, in any Enerchina Shares, options, warrants, derivatives, or other securities carrying rights of conversion into or exchange or subscription for Enerchina Shares, nor had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Enerchina Shares, options, warrants, derivatives, or other securities carrying rights of conversion into or exchange or subscription for Enerchina Shares, nor did it deal in any Enerchina Shares, options, warrants, derivatives, or other securities carrying rights of conversion into or exchange or subscription for Enerchina Shares as principal during the period between the date falling six months before the date of the Announcement and the Latest Practicable Date.

(e) Dealings in securities of Enerchina by Enerchina Directors

Save as disclosed in section 4(a) (iii) of this Appendix IV relating to the grant of Options to the Enerchina Directors and the grant of Options to Mr. Lu Zhi Fang as detailed below, none of the Enerchina Directors had dealt for value in any Enerchina Shares, options, warrants, derivatives, or other securities carrying rights of conversion into or exchange or subscription for Enerchina Shares during the period between the date falling six months before the date of the Announcement and the Latest Practicable Date.

Name of Enerchina Directors	Date of grant	Money paid for the grant of the Options <i>HK\$</i>	Exercise period	Exercise price <i>HK\$</i>	Number of Options/ underlying shares	Percentage of the issued share capital of the Company
Lu Zhi Fang (<i>Note</i>)	09.06.2004	1.00	09.06.2004 – 08.06.2014	0.44	2,288,000	0.10%

Note: Mr. Lu Zhi Fang resigned as an Enerchina Director with effect from 22 September 2004.

(f) Interests in the Offeror

As at the Latest Practicable Date, Enerchina did not hold any interest in the shares, options, warrants, derivatives or other securities carrying rights of conversion into or exchange or subscription for shares of the Offeror nor did it deal for value in any of the aforesaid securities of the Offeror during the period between the date falling six months before the date of the Announcement and the Latest Practicable Date.

During the period between the date falling six months before the date of the Announcement and the Latest Practicable Date, the dealings by the Enerchina Directors in the shares or debentures of the Offeror were as follows:

Name of Enerchina Director	Date	No. and type of securities	Nature of transaction	Beneficial owner of purchaser	Price
Ou Yaping	16.11.2004	120,000,000 ordinary shares	Disposal of shares	Value Partners Limited	HK\$102 million
Tang Yui Man Francis	11.6.2004	938,000 ordinary shares	Disposal of shares	Stock Exchange transaction	Highest price per share: HK\$0.90
					Average price per share: HK\$0.895
	16.6.2004	1,688,000 ordinary shares	Disposal of shares	Stock Exchange transaction	Highest price per share: HK\$0.85
					Average price per share: HK\$0.84
	28.6.2004	1,934,000 ordinary shares	Disposal of shares	Stock Exchange transaction	Highest price per share: HK\$0.84
					Average price per share: HK\$0.83

Save as disclosed above and in section 4(a)(ii) of this Appendix IV, as at the Latest Practicable Date, none of the Enerchina Directors (including their respective spouses, children under the age of 18, related trusts and companies controlled by them) had any interest in any shares, options, warrants, derivatives or other securities carrying rights of conversion into or exchange or subscription for shares of the Offeror, nor did they deal in any shares, options, warrants, derivatives or other securities carrying rights of conversion into or exchange or subscription for shares of the Offeror during the period between the date falling six months before the date of the Announcement and the Latest Practicable Date.

(g) General

- (i) No person has entered into any arrangement of the kind described in Note 8 to Rule 22 of the Takeovers Code with Enerchina or with any other person who was an associate of Enerchina by virtue of classes (1), (2), (3) or (4) of the definition of associate under the Takeovers Code with respect to the relevant securities of Enerchina or Sinolink.

- (ii) Save as disclosed in section 4 of this Appendix IV, as at the Latest Practicable Date, the Enerchina Directors were not aware of any:
 - (1) shareholdings of the Company in Sinolink;
 - (2) shareholdings in the Company and in Sinolink in which the Enerchina Directors are interested;
 - (3) shareholdings in the Company owned or controlled by a subsidiary of the Company, by a pension fund of the Company or of a subsidiary of the Company, or by an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code but excluding exempt principal traders;
 - (4) shareholdings in the Company which are managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;
 - (5) dealings for value in the relevant securities of the Company or Sinolink in question by the holders of the shareholdings referred to in sub-paragraphs 4(g)(ii)(1) and (2) above during the period beginning six months prior to the offer period (as defined in the Takeovers Code) and ending with the Latest Practicable Date; and
 - (6) dealings for value in the relevant securities of the Company in question by the holders of the shareholdings referred to in sub-paragraphs 4(g)(ii)(3) and (4) above during the offer period (as defined in the Takeovers Code) and ending with the Latest Practicable Date.
- (iii) No benefit (other than statutory compensation) will be or had been given to any Enerchina Director as compensation for loss of office or otherwise in connection with the Offer.
- (iv) Save as disclosed in this document, as at the Latest Practicable Date, there is no agreement or arrangement between any Enerchina Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.
- (v) As at the Latest Practicable Date, there is no material contract entered into by the Offeror in which any Enerchina Director has a material personal interest.
- (vi) As at 31 October 2004, details of the bank overdrafts or loans, or other similar indebtedness, mortgages, charges or guarantees or other material contingent liabilities of the Enerchina Group are set out in the section headed “Indebtedness” in Appendix II to this document.

5. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by members of the Enerchina Group after the date two years preceding the date of the commencement of the offer period (as defined in the Takeovers Code) which are or may be material:

- the underwriting agreement dated 11 December 2002 entered into between the Company and Smart Orient in respect of the rights issue undertaken by the Company in accordance with the terms of the prospectus of the Company dated 11 February 2003;
- the subscription agreement dated 26 September 2003 entered into between the Company and Sinolink in respect of the issue of 45,400,000 new Shares by the Company to Sinolink at the subscription price of HK\$0.60 per Share;
- the underwriting agreement dated 27 October 2003 entered into between the Company and Smart Orient in respect of the rights issue undertaken by the Company in accordance with the terms of the prospectus of the Company dated 5 December 2003;
- the underwriting agreement dated 17 February 2004 entered into between the Company and Smart Orient in relation to the open offer of two new Shares for every existing Share held by the shareholders of the Company whose names appear on the register of members of the Company on 29 March 2004 and whose addresses are in Hong Kong; and
- the equity transfer agreement dated 16 December 2004 (the “Agreement”) entered into between Xin Hua Control, New China, and an independent third party (the “Buyer”) whereby the Company shall sell and the Buyer shall purchase the entire interest of the Company in New China and, amongst others, the Company shall also cancel all its existing shareholder’s loan due from New China, for a cash consideration of US\$23,500,000 (the “Disposal”). Completion of the Disposal by the Buyer is subject to the fulfilment of certain conditions including but not limited to all required consents, authorisations or approvals from all other third parties that are necessary for the closing of the transaction contemplated under the Agreement shall have been received and the Buyer shall have completed its business, accounting, tax and legal due diligence analysis and review of Xin Hua Control, and are reasonably satisfied with respect to the business, properties, operations, nature of assets, liabilities, and financial condition of Xin Hua Control. Similarly, completion of the Disposal by the Company is subject to the fulfilment of certain conditions including but not limited to the performance in all material respects of all the obligations of the Buyer under the Agreement that are required to be performed by it at or prior to closing.

Save as disclosed above, no material contract (not being a contract entered into in the ordinary course of business carried on by the Enerchina Group) has been entered into by any member of the Enerchina Group after the date two years preceding the commencement of the offer period (as defined in the Takeovers Code).

6. SERVICE CONTRACTS

As at the Latest Practicable Date, the following Enerchina Directors had service contracts with the Company, its subsidiaries or associated companies which have more than 12 months to run:

Mr. Ou Yaping

Mr. Ou Yaping entered into a service agreement with the Company on 1 April 2004 for a specific term of 3 years. He is entitled to a monthly salary of HK\$30,000 and a one month end of year payment provided that in the relevant year in which this service agreement commenced, Mr. Ou shall be entitled to his year end payment on a pro-rata basis calculated by reference to the number of days of his service covered in that relevant year bears to the number of days in that relevant year. Mr. Ou is also entitled to a year end discretionary bonus determined by the Board at its absolute discretion having regard to the operating results of the Enerchina Group and his performance. Mr. Ou is entitled to the benefits of a provident fund scheme. At the discretion of the Board, he may also be granted share options in the Company.

Mr. Ou Yaping has also entered into a service agreement with Panva Gas Holdings Limited dated 1 January 2004 (the “Ou Panva Agreement”). Save and except that Mr. Ou is entitled to a monthly salary of HK\$20,000 under the Ou Panva Agreement, the terms mentioned above in relation to the service agreement of Mr. Ou with the Company are the same for the Ou Panva Agreement.

Mr. Tang Yui Man Francis

Mr. Tang Yui Man Francis entered into a service agreement with the Company on 1 April 2004 for a specific term of 3 years. He is entitled to a monthly salary of HK\$45,000 and a one month end of year payment provided that in the relevant year in which this service agreement commenced, Mr. Tang shall be entitled to his year end payment on a pro-rata basis calculated by reference to the number of days of his service covered in that relevant year bears to the number of days in that relevant year. Mr. Tang is also entitled to a year end discretionary bonus determined by the Board at its absolute discretion having regard to the operating results of the Enerchina Group and his performance. Mr. Tang is entitled to the benefits of a provident fund scheme. At the discretion of the Board, he may also be granted share options in the Company.

Mr. Tang Yui Man Francis has also entered into a service agreement with the Offeror dated 19 March 2004 (the “Tang Sinolink Agreement”). Save and except that Mr. Tang is entitled to a monthly salary of HK\$129,000 under the Tang Sinolink Agreement and the benefits of a medical scheme, the terms mentioned above in relation to the service agreement of Mr. Tang with the Company are the same for the Tang Sinolink Agreement.

Mr. Tang Yui Man Francis has also entered into a service agreement with Panva Gas Holdings Limited dated 1 January 2004 (the “Tang Panva Agreement”). Save and except that Mr. Tang is entitled to a monthly salary of HK\$20,000 under the Tang Panva Agreement, the terms mentioned above in relation to the service agreement of Mr. Tang with the Company are the same for the Tang Panva Agreement.

Mr. Xiang Ya Bo

Mr. Xiang Ya Bo entered into a service agreement with the Company on 2 May 2004 for a specific term of 3 years. He is entitled to a monthly salary of HK\$130,000 and a one month end of year payment provided that in the relevant year in which this service agreement commenced, Mr. Xiang shall be entitled to his year end payment on a pro-rata basis calculated by reference to the number of days of his service covered in that relevant year bears to the number of days in that relevant year. Mr. Xiang is also entitled to a year end discretionary bonus determined by the Board at its absolute discretion having regard to the operating results of the Enerchina Group and his performance. Mr. Xiang is entitled to the benefits of a provident fund scheme and a medical scheme. At the discretion of the Board, he may also be granted share options in the Company.

Save as disclosed above, there are no existing service contracts between any of the Enerchina Directors or proposed directors of Enerchina and any member of the Enerchina Group or any associated company (within the meaning of the Takeovers Code) of Enerchina which have more than 12 months to run and no service contracts between any of the Enerchina Directors or proposed directors of Enerchina and any member of the Enerchina Group or any associated company of Enerchina have been entered into or amended within six months before the commencement of the offer period.

7. LITIGATION

A supplier of the Enerchina Group filed an arbitration in August 2003 against Fuhuade Power Plant claiming an amount of approximately HK\$28.0 million. The arbitration is still in progress and the outcome of such cannot be ascertained.

Save as disclosed above, as at the Latest Practicable Date, no member of the Enerchina Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Enerchina Directors to be pending or threatened against any member of the Enerchina Group.

8. CONSENT

Dao Heng Securities has given and has not withdrawn its written consent to the issue of this document with the inclusion therein of its letter and the references to its name, in the forms and context in which they are included. The Enerchina Directors are of the opinion that written consent is not required from Deloitte Touche Tohmatsu, the auditor of the Company, for the inclusion of the audited financial statements of the Company in Appendix II to this document and therefore the Enerchina Directors have not sought to obtain such consent.

9. QUALIFICATION

The following are the qualifications of the adviser who has given an opinion, letter or advice contained in this document:

Name	Qualifications
Morgan Stanley	A company licensed for Type 1 regulated activity (dealing with securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance) and Type 7 regulated activity (providing automated trading services) under the SFO
Dao Heng Securities	A deemed licensed corporation under the SFO to conduct Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance), Type 7 regulated activity (providing automated trading services) and Type 9 regulated activity (asset management) under the SFO

The principal place of business of Dao Heng Securities is at 12th Floor, The Center, 99 Queen’s Road Central, Hong Kong.

10. GENERAL

The registered office of Enerchina is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The names of the Enerchina Directors are set out on page 5 of this document.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection at the principal place of business of Enerchina at 28th Floor, Vicwood Plaza, 199 Des Voeux Road, Central, Hong Kong during normal business hours (except Sundays and gazetted public holidays in Hong Kong) up to the close of the Offers:

- (i) the memorandum of association and bye-laws of Enerchina;
- (ii) the memorandum of association and bye-laws of Sinolink;
- (iii) the annual reports of Enerchina and Sinolink for each of the two years ended 31 December 2002 and 2003;

- (iv) the interim reports for Enerchina and Sinolink for the six months ended 30 June 2004;
- (v) the letter from Morgan Stanley as set out on pages 10 to 20 of this document;
- (vi) the letter of consent from Morgan Stanley referred to in paragraph 4 of Appendix III to this document;
- (vii) the letter from the Enerchina Independent Board Committee as set out on pages 21 to 22 of this document;
- (viii) the letter from Dao Heng Securities as set out on pages 23 to 38 of this document;
- (ix) the letter of consent from Dao Heng Securities referred to in section 8 of this Appendix IV;
- (x) the undertaking from Atlantic Cay International Limited and Warburg Pincus Ventures L.P. to Sinolink not to accept the Share Offer for the Enerchina Shares respectively held by them;
- (xi) the undertakings from each of the Enerchina Directors to Sinolink not to accept the Option Offer for the Options respectively held by them;
- (xii) the material contracts referred to in section 5 of this Appendix IV;
- (xiii) the service contracts referred to in section 6 of this Appendix IV; and
- (xiv) the Facility Agreement.