

I am pleased to announce the operating results of Enerchina Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2002.

The year 2002 was a year of transition for the Group. With a new management team and the new business model, the Group has a more solid operating base and a steady cash flow for the future. In May 2002, the Group acquired a 70% interest in Shenzhen Fuhuade Electric Power Co., Ltd. ("Fuhuade") whose principal asset is the Dapeng Power Plant at Longgang district, Shenzhen, the People's Republic of China (the "PRC"). Dapeng Power Plant has a total installed capacity of 70.8 megawatts ("MW") and an annual average output of 270,000 megawatt-hours ("MWh") for on grid generation. Not only did Fuhuade contribute a profit to the Group, it also laid a solid foundation for the Group to further expand the electricity generation business. Furthermore, the management has brought major realignment to the Group's investment portfolio. Looking ahead, the Group will capitalise on the strong experience of its major shareholder, Sinolink Worldwide Holdings Limited ("Sinolink"), to actively seek projects with good potential in the PRC.

## Business Review

### *Electricity generation*

A favourable operating environment is highly essential to the growth of enterprises. The PRC recorded a gross domestic product ("GDP") growth of approximately 8% in 2002. Alongside the rapidly growing economy was the surging demand for electricity. In 2002, the PRC's electricity consumption soared by 10.3% to 1,280 million MWh. The increase was particularly remarkable in Shenzhen among those rapidly growing PRC cities. According to the Shenzhen Municipal Statistics Bureau, total electricity consumption in Shenzhen grew by more than 22% in 2002 to approximately 26 million MWh, with the demand-supply ratio hitting a high average of 97%. The strong growth in Shenzhen's electricity demand is expected to continue in the coming years, keeping Shenzhen on a tight stretch in meeting the exemplifying shortage, which in turn will provide the Group with great opportunities for achieving sustainable growth. For the year ended 31 December 2002, Fuhuade recorded a total electricity output of 270,000 MWh of which 253,000 MWh was sold on grid. This generated a turnover of approximately HK\$155,300,000 and a net profit of approximately HK\$14,300,000 for Fuhuade.

In order to tap on the rising electricity demand in Shenzhen, Fuhuade commenced an expansion scheme at Dapeng Power Plant in 2001. This involves technological improvement for the existing generators as well as the addition of a combined cycle gas turbine generator. The latter consumes less fuel and generates more electricity, and its higher efficiency and reliability owes to the more advanced technology employed. Its main unit is manufactured by Siemens Aktiengesellschaft, a leading German corporation in the production of electricity generators, and is



# Chairman's Statement

complemented by the advanced steam powered ancillary units produced in the PRC. Upon full operation of this new generator, the total installed capacity at Dapeng Power Plant will increase from the current 70.8 MW to 285 MW. Moreover, the new generator can use either heavy diesel, or the more efficient and environmentally friendly natural gas as fuel. This flexibility will further enhance the competitiveness advantages of Dapeng Power Plant. Installation of

the main unit was completed in the fourth quarter of 2002, and the ancillary units are currently undergoing final testing. It is expected that the new generator will commence operation in the second quarter of this year.



## *Project Investments*

In order to better utilise existing resources, the management has decided to rationalise the Group's investments. This involves the disposal of investments that continuously record an operating loss or fall short of set targets. For those investments that disposal opportunities proved unavailable, full provisions are made. During the year under review, the Group sold its interests in Guanghuan

Xinwen and 9xo9.com, as well as the entire interest in its associated company Shenzhen Yuanheng Liquid Crystal Display Industry Development Co. Ltd. The move gave rise to an exceptional loss of approximately HK\$64,400,000. This together with the aggregate provision of HK\$5,700,000 made for other investments, resulted in a loss of HK\$70,100,000 for the Group's project investment business during the year under review.

## *Property investment*

With the global economy stuck in doldrums, Hong Kong cannot fare well on its own. Prevailing weakness in the business environment, rising unemployment and recalcitrant deflation have restrained the local property sector from turning the odds around. Given that the Group had sold some of its investment properties in 2001, and further disposed of four investment properties for a total consideration of approximately HK\$22,600,000 in 2002, the Group's rental income for the year under review saw a decline of 32.8% to HK\$450,000. Also, the Group's investment property portfolio recorded a revaluation deficit at the end of 2002. As a result, the Group's property investment business suffered a net loss of HK\$5,200,000 for the year under review. As mentioned in previous year, it is the Group's strategy to gradually dispose of its properties portfolio so as to focus its resources on the electricity generation business in the PRC.



## Business Prospects

2003 is the year of growth for the PRC's power sector. It is also the first year that the sector is required to carry out structural reforms. It is expected that the PRC will maintain a healthy GDP growth in 2003, with its electricity demand to grow faster than last year. As the implementation of structural reforms is gaining substance and a new regulatory framework is being put in place, a new phase of development is marked for the PRC's power industry, which provides the Group with a favourable operating environment for its business development.

With the new generator unit expected to commence operation in the second quarter of 2003, Fuhuade's installed capacity will increase to 285 MW. This will lay a solid foundation for the Group to target for higher profit and to sustain solid growth. Furthermore, the state-approved liquefied natural gas terminal and distribution facility will be situated at some 10 kilometres from Fuhuade, which will greatly facilitate Fuhuade in switching to natural gas fuel. The continual growth in the PRC's electricity demand also provides a favourable background for the Group to further expand its installed capacity to a level of 1,000 MW, and the Group is now conducting feasibility studies towards this target. Given the numerous opportunities in the PRC's power sector, the management is confident that the Group will be able to capitalise on its strengths to meet the challenges ahead. The Group will continue to further increase its operating profit and to maintain a healthy growth, with the maximising of shareholders' interest and the solid growth of the Group as the paramount objective.



## Acknowledgement

Last but not least, I would like to take this opportunity to express the Board's sincere gratitude to all shareholders and business associates for their support and trust, and to all staff for their devoted efforts and contributions to the Group.

Sun Qiang Chang

*Chairman*

Hong Kong, 23 April 2003