

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

Change of Company Name

Pursuant to a special resolution passed at a special general meeting held on 8 November 2002, the name of the Company was changed from Silvernet Group Limited to Enerchina Holdings Limited.

Principal Activities

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in note 43 to the financial statements.

Results

The results of the Group are set out in the consolidated income statement on page 28.

Fixed Assets

During the year, the Group acquired leasehold land and building, plant and machinery and construction in progress amounting to HK\$88,729,000, HK\$75,059,000 and HK\$120,401,000 respectively as a result of the acquisition of subsidiaries during the year.

Details of the above and other movements in the fixed assets of the Group and the Company during the year are set out in notes 16 and 17 to the financial statements.

Share Capital

Details of movements during the year in the authorised and issued share capital of the Company are set out in note 29 to the financial statements.

Reserves

Movements during the year in the reserves of the Group and the Company are set out in note 31 to the financial statements.

Directors

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Sun Qiang Chang, <i>Chairman</i>	
Ou Yaping, <i>Vice Chairman</i>	(appointed on 2 May 2002)
Tang Yui Man, Francis	(appointed on 2 May 2002)
Xiang Ya Bo	(appointed on 2 May 2002)
Gu Junyuan	(appointed on 24 June 2002)
Leng Xuesong	(appointed on 24 June 2002)
Gao Jian Min	(resigned on 2 May 2002)
Koo Fook Sun, Louis	(resigned on 10 May 2002)
Zhao Jian Gong	(resigned on 2 May 2002)
Wang Tianye	(resigned on 1 June 2002)

Independent non-executive directors:

Xin Luo Lin	
Lu Zhi Fang	(appointed on 24 June 2002)
Lau Yuen Sun, Adrian	(resigned on 24 June 2002)

In accordance with clause 86(2) of the Company's bye-laws, Messrs. Ou Yaping, Tang Yui Man, Francis, Xiang Ya Bo, Gu Junyuan, Leng Xuesong and Lu Zhi Fang shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Xiang Ya Bo has entered into a service contract with the Company for a fixed term of two years from 2 May 2002.

Other than as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract, which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office of each director is the period up to his retirement by rotation in accordance with the Company's bye-laws.

Directors' Report

Directors' Interests in Shares

As at 31 December 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

Name of director	Name of Company	Number of ordinary shares		Note
		Personal Interests	Corporate Interests	
Ou Yaping	Enerchina Holdings Limited (formerly known as Silvernet Group Limited)	–	1,089,310,445	1
Ou Yaping	Sinolink Electric Power Company Limited	90,000	–	2

Notes:

(1) The shares are held by Sinolink Worldwide Holdings Limited of which Mr. Ou Yaping and his associates hold approximately 67.62% of the issued share capital.

(2) Non-voting deferred shares.

Other than as disclosed above, as at 31 December 2002, none of the directors nor their associates had any interest (whether beneficial or non-beneficial) in the shares or debt securities of the Company or any of its associated corporation.

Share Options

Particulars of the Company's share option scheme are set out in note 30 to the financial statements.

The following table discloses movements in the Company's share options during the year.

	Outstanding at beginning of year	Lapsed during year	Outstanding at end of year
Category 1: Directors			
Sun Qiang Chang	50,000,000	–	50,000,000
Gao Jian Min (Note)	50,000,000	(50,000,000)	–
Koo Fook Sun, Louis (Note)	50,000,000	(50,000,000)	–
Zhao Jian Gong (Note)	30,000,000	(30,000,000)	–
Wang Tianye (Note)	20,000,000	(20,000,000)	–
	<u>200,000,000</u>	<u>(150,000,000)</u>	<u>50,000,000</u>
Category 2: Employees			
Total employees	<u>8,000,000</u>	<u>(6,320,000)</u>	<u>1,680,000</u>

Note: Resigned as a director of the Company during the year.

Directors' Rights to Acquire Shares or Debentures

Other than as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Report

Directors' Interests in Contracts

Other than as disclosed in the section below headed "connected transactions", no contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Connected Transactions

1. On 8 March 2002, the Company entered into an acquisition agreement ("Acquisition Agreement") with Sinolink Worldwide Holdings Limited ("Sinolink"). Pursuant to the terms of Acquisition Agreement, the Company purchased the entire issued share capital of Sinolink Industrial Limited ("Sinolink Industrial") from Sinolink (the "Acquisition").

Sinolink Industrial is interested in 70% of the registered capital of Shenzhen Fuhuade Electric Co., Ltd. ("Fuhuade"), a sino-foreign equity joint venture company established in the People's Republic of China, through a wholly owned subsidiary, Sinolink Electric Power Company Limited ("Sinolink Electric Power"). Sinolink assigned a shareholders' loan in an amount equivalent to approximately HK\$137.9 million which is interest free owing to Sinolink by Sinolink Industrial to the Company. The consideration of the Acquisition and the assignment of the shareholders' loan is approximately HK\$360.4 million, of which approximately HK\$163.4 million was satisfied by cash at completion and the balance of HK\$197 million remains payable on demand and carries interest until actual payment at the rate of 3% per annum payable semi-annually. However, Sinolink undertakes that as long as Sinolink is a substantial shareholder of the Company, Sinolink will not demand the balance of HK\$197 million from the Company, which actions will detrimentally affect the financial resources and daily operations of the Company. Payment of approximately HK\$197 million and the interest accrued thereon is secured by share charges given by the Company and Sinolink Industrial respectively over the shares in Sinolink Industrial and Sinolink Electric Power respectively and an undertaking given by Sinolink Electric Power not to create any security interest over its interest in 70% of the registered capital of Fuhuade, in each case in favour of Sinolink. Interest of HK\$3,886,027 has been charged by Sinolink during the year ended 31 December 2002.

In addition, a profit guarantee is provided by Sinolink under the Acquisition Agreement that the profits after taxation of Fuhuade arising from its ordinary activities and excluding any extraordinary item (i) for the two financial years ending 31 December 2003 in aggregate is less than RMB135,000,000; or (ii) for the year ending 31 December 2003 is less than RMB110,000,000 (each being the "Relevant Guaranteed Profit"), Sinolink shall pay to the Company an amount equivalent to the shortfall between the Relevant Guaranteed Profits and the corresponding profit.

Connected Transactions *(continued)*

2. On 26 June 2002, Fuhuade entered into a loan agreement with a bank for an amount of RMB230 million. The loan is repayable for a term of six years (the "Term"). Fuhuade is a subsidiary of the Company which holds 70% of its equity interest and the remaining 30% is held by Shenzhen Sinolink Enterprises Limited ("Shenzhen Sinolink"), a subsidiary of Sinolink, a substantial shareholder of the Company.

The Company provided a guarantee of 70% of the loan, being RMB161 million. The remaining 30% is guaranteed by Shenzhen Sinolink. The guarantee is for the period of the Term plus two years thereafter.

3. On 6 March 2003, Fuhuade entered into a loan agreement with a bank for an amount up to US\$25 million. The loan is repayable for a term of three years (the "New Term").

The Company provided a guarantee of 70% of the loan, amounting US\$17.5 million. The remaining 30% is guaranteed by Shenzhen Sinolink. The guarantee is for the period of the New Term plus two years thereafter.

Substantial Shareholders

As at 31 December 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the following shareholders had interests of 10% or more in the share capital of the Company:

Name	Number of ordinary shares	Approximate percentage
Sinolink	1,089,310,445	29.99%
Ou Yaping <i>(Note)</i>	1,089,310,445	29.99%
Atlantic Cay International Limited	770,569,106	21.21%

Note: Mr. Ou Yaping and his associates beneficially own 67.62% of the issued share capital of Sinolink and is accordingly deemed by the SDI Ordinance to be interested in the shares of the Company held by Sinolink.

Other than as disclosed above, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the Company had not been notified of any interests representing 10% or more of the issued share capital of the Company as at 31 December 2002.

Directors' Report

Major Customers and Suppliers

During the year, the five largest customers of the Group in aggregate accounted for about 100% of the turnover of the Group. Sales of the largest customer accounted for about 99.60% of its turnover.

The five largest suppliers of the Group in aggregate accounted for about 94.68% of its purchase for the year. Purchases from the largest supplier accounted for about 48% of its total purchase.

At no time during the year, did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) have an interest in any of the five largest customers and suppliers of the Group for the year ended 31 December 2002.

Post Balance Sheet Events

Details of significant post balance sheet events are set out in note 42 to the financial statements.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's bye-laws although there is no restriction against such rights under the laws in Bermuda.

Compliance with Code of Best Practice

The Company has complied throughout the year ended 31 December 2002 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Auditors

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Sun Qiang Chang

CHAIRMAN

Hong Kong, 23 April 2003