



REPORT OF THE DIRECTORS

The Board have pleasure in presenting their Report and the audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and the principal activities of its subsidiaries are the sale and distribution of gas fuel in the PRC including the provision of natural gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of gas fuel automobile refilling stations, and the sale and distribution of LPG and the sale of natural gas and LPG household appliances. Particulars of its principal subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 66.

The Directors do not recommend the payment of a dividend (2006: Nil) and propose that the profit for the year be retained.

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 69.

The Company's reserves available for distribution to shareholders at 31 December 2007 amounted to approximately HK\$3,452 million (2006: Nil).

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for each of the five years ended 31 December 2007 is set out on page 4.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

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

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors:

Mr. Chan Wing Kin, Alfred (<i>Chairman</i>)	(appointed on 1 March 2007)
Mr. Wong Wai Yee, Peter (<i>Chief Executive Officer</i>)	(appointed on 1 March 2007)
Mr. Kwan Yuk Choi, James	(appointed on 1 March 2007)
Mr. Ho Hon Ming, John (<i>Company Secretary</i>)	(appointed on 1 March 2007)
Mr. Ou Yaping	
Mr. Chen Wei	
Mr. Shen Lian Jin	
Mr. Tang Yui Man Francis (<i>alternate director to Mr. Ou Yaping</i>)	(resigned as executive Director on 1 March 2007) (appointed as alternate Director to Mr. Ou Yaping on 1 March 2007)
Mr. Li Fujun	(resigned on 1 March 2007)
Mr. Zhang Keyu	(resigned on 1 March 2007)

Non-executive Director:

Mr. To Chi Keung, Simon	(retired on 15 February 2007)
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Independent non-executive Directors:

Dr. Chow Yei Ching	(appointed on 23 May 2007)
Mr. Cheng Mo Chi, Moses	(appointed on 23 May 2007)
Mr. Li Man Bun, Brian David	(appointed on 23 May 2007)
Mr. Cheung Hon Kit	(resigned on 23 May 2007)
Mr. Li Xiao Ru	(retired on 23 May 2007)
Mr. Zhang Ke	(resigned on 23 May 2007)

In accordance with the Article 95 of the articles of association of the Company (the "Articles of Association"), Messrs. Chow Yei Ching, Cheng Mo Chi, Moses, Li Man Bun, Brian David shall retire from office at the forthcoming annual general meeting of the Company ("AGM") and, being eligible, would offer themselves for re-election.

In accordance with the Article 112 of the Articles of Association, Messrs. Wong Wai Yee, Peter, Ho Hon Ming, John, Ou Yaping and Shen Lian Jin shall retire from office by rotation at the forthcoming AGM. Messrs. Wong Wai Yee, Peter, Ho Hon Ming, John, Ou Yaping and Shen Lian Jin, being eligible, would offer themselves for re-election.

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of independent non-executive Directors to be independent.

REPORT OF THE DIRECTORS

Each of the independent non-executive Directors was appointed for a period commencing from his appointment date and subject to retirement by rotation at the AGM.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND IN SHARE OPTIONS

As at 31 December 2007, the interests or short positions of the Directors and chief executive of the Company (who held office on 31 December 2007) in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to: (a) divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions or short positions in Shares and underlying Shares

Name of Director	Capacity	Interest in Shares		Total interest in Shares	Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of the Company's issued share capital as at 31.12.2007
		Personal interest	Corporate interest				
Chan Wing Kin, Alfred	Beneficial owner	-	-	-	3,600,000	3,600,000	0.19%
Wong Wai Yee, Peter	Beneficial owner	-	-	-	3,000,000	3,000,000	0.16%
Kwan Yuk Choi, James	Beneficial owner	-	-	-	3,000,000	3,000,000	0.16%
Ho Hon Ming, John	Beneficial owner	-	-	-	3,000,000	3,000,000	0.16%
Ou Yaping	Beneficial owner and interest in controlled corporations	3,618,000	530,487,245 (Note)	534,105,245	-	534,105,245	27.30%
Chen Wei	Beneficial owner	1,600,000	-	1,600,000	6,633,000	8,233,000	0.42%
Shen Lian Jin	Beneficial owner	301,500	-	301,500	3,010,000	3,311,500	0.17%
Chow Yei Ching	Beneficial owner	1,600,000	-	1,600,000	-	1,600,000	0.08%
Tang Yui Man, Francis (alternate Director to Ou Yaping)	Beneficial owner	-	-	-	3,015,000	3,015,000	0.16%

Note: The 530,487,245 Shares represent the aggregate of (i) 344,046,568 Shares held by Kenson Investment Limited ("Kenson") and 186,440,677 Shares held by Supreme All Investment Limited ("Supreme All"), both wholly-owned subsidiaries of Enerchina. As approximately 35.5% of the issued share capital of Enerchina was held by Asia Pacific Promotion Limited ("Asia Pacific") as at 31 December 2007 and Mr. Ou Yaping is the sole beneficial owner of Asia Pacific, Mr. Ou Yaping is deemed under the SFO to be interested in such 530,487,245 Shares.

REPORT OF THE DIRECTORS

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' Rights to Acquire Shares".

DIRECTORS' RIGHTS TO ACQUIRE SHARES

(a) Interest in options to subscribe for Shares

Pursuant to the Company's share option schemes, the Company has granted to certain Directors options to subscribe for the Shares, details of which as at 31 December 2007 were as follows:

Name of Directors	Date of grant	Exercisable period	Number of Shares subject to outstanding options as at 01.01.2007	Exercise price (as adjusted, if applicable) HK\$	As at 31.12.2007	
					Number of Shares subject to outstanding options (as adjusted if applicable)	Approximate percentage of the Company's issued share capital
Chan Wing Kin, Alfred	16.03.2007	16.03.2008 – 27.11.2015	–	3.830	1,080,000	0.06%
	16.03.2007	16.03.2009 – 27.11.2015	–	3.830	1,080,000	0.06%
	16.03.2007	16.03.2010 – 27.11.2015	–	3.830	1,440,000	0.07%
Wong Wai Yee, Peter	16.03.2007	16.03.2008 – 27.11.2015	–	3.830	900,000	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	–	3.830	900,000	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	–	3.830	1,200,000	0.06%
Kwan Yuk Choi, James	16.03.2007	16.03.2008 – 27.11.2015	–	3.830	900,000	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	–	3.830	900,000	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	–	3.830	1,200,000	0.06%
Ho Hon Ming, John	16.03.2007	16.03.2008 – 27.11.2015	–	3.830	900,000	0.05%
	16.03.2007	16.03.2009 – 27.11.2015	–	3.830	900,000	0.05%
	16.03.2007	16.03.2010 – 27.11.2015	–	3.830	1,200,000	0.06%

REPORT OF THE DIRECTORS

Name of Directors	Date of grant	Exercisable period	Number of Shares subject to outstanding options as at 01.01.2007	Exercise price (as adjusted, if applicable) HK\$	As at 31.12.2007	
					Number of Shares subject to outstanding options (as adjusted if applicable)	Approximate percentage of the Company's issued share capital
Ou Yaping	04.04.2001	01.01.2003 – 03.04.2011	1,800,000	0.473	–	–
	04.04.2001	01.01.2004 – 03.04.2011	1,800,000	0.473	–	–
Chen Wei	04.04.2001	01.01.2003 – 03.04.2011	1,800,000	0.473	1,809,000	0.09%
	04.04.2001	01.01.2004 – 03.04.2011	1,800,000	0.473	1,809,000	0.09%
	19.11.2004	31.12.2005 – 30.03.2011	900,000	3.483	904,500	0.05%
	19.11.2004	31.12.2006 – 30.03.2011	900,000	3.483	904,500	0.05%
	19.11.2004	31.12.2007 – 30.03.2011	1,200,000	3.483	1,206,000	0.06%
Shen Lian Jin	04.04.2001	01.01.2004 – 03.04.2011	300,000	0.473	–	–
	19.11.2004	31.12.2005 – 30.03.2011	600,000	3.483	603,000	0.03%
	19.11.2004	31.12.2006 – 30.03.2011	600,000	3.483	603,000	0.03%
	19.11.2004	31.12.2007 – 30.03.2011	800,000	3.483	804,000	0.04%
	16.03.2007	16.03.2008 – 27.11.2015	–	3.830	300,000	0.02%
	16.03.2007	16.03.2009 – 27.11.2015	–	3.830	300,000	0.02%
	16.03.2007	16.03.2010 – 27.11.2015	–	3.830	400,000	0.02%
Tang Yui Man, Francis (alternate Director to Ou Yaping)	19.11.2004	31.12.2005 – 30.03.2011	900,000	3.483	904,500	0.05%
	19.11.2004	31.12.2006 – 30.03.2011	900,000	3.483	904,500	0.05%
	19.11.2004	31.12.2007 – 30.03.2011	1,200,000	3.483	1,206,000	0.06%

REPORT OF THE DIRECTORS

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the year, 13,600,000 options were granted to the Directors and the closing price of the shares immediately before the date on which the options were granted was HK\$3.8450. 3,919,500 options were exercised by the Directors and no options held by the Directors were lapsed or cancelled. 962,400 options were exercised by two resigned directors (i.e. Cheung Hon Kit and Li Xiao Ru) and 643,200 options held by them were lapsed during the period.
3. The exercise prices per Share under Pre-GEM Scheme and 2001 GEM Scheme had been adjusted during the period and please refer to the section headed "Share Option Schemes" below for details.
4. These options represent personal interest held by the Directors as beneficial owners.

Save as stated above, as at 31 December 2007, there were no other interests or short positions of the Directors in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEMES OF THE COMPANY

(a) Pre-GEM Share Option Scheme

The Company approved a pre-GEM listing share option scheme (the "Pre-GEM Scheme") by resolutions of sole shareholder of the Company dated 4 April 2001. The purpose of the Pre-GEM Scheme was to recognize the contribution of certain Directors and employees of members of the Group and group members of Sinolink to the growth of the Group and/or to the listing of the Shares on GEM Board.

As at 31 December 2007, the outstanding number of Shares in respect of which options had been granted under the Pre-GEM Scheme was 4,180,800 (2006: 9,260,000), representing 0.21% (2006: 0.53%) of the existing share capital of the Company as at the date of this report.

Share options were granted under the Pre-GEM Scheme in 2001 in consideration of HK\$1.00 per grant, at an exercise price of HK\$0.57, being the issue price of the Shares on listing on GEM Board. The exercise price was subsequently adjusted to HK\$0.475 upon capitalization of Shares in 2002. 50% of options under the Pre-GEM Scheme are exercisable from 1 January 2003 with the remaining 50% exercisable from 1 January 2004. The options under the Pre-GEM Scheme are exercisable on a cumulative basis until the expiry date on 3 April 2011. The options under the Pre-GEM Scheme were granted to recognize the past and present contributions of the grantees to the Group.

The Pre-GEM Scheme ended on the date on which dealings in the Shares commenced on GEM Board (i.e. 20 April 2001), and no further options would be offered or granted after that date. The provision of the Pre-GEM Scheme shall remain in full force and effect.

(b) 2001 GEM Share Option Scheme

Pursuant to a share option scheme approved by the resolution of the sole shareholder of the Company dated 4 April 2001 (the "2001 GEM Scheme"), the Company might grant options to the Directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for Shares. The exercise price of the share option would be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The 2001 GEM Scheme remained in force for a period of 10 years commencing on 4 April 2001.

The share options granted under the 2001 GEM Scheme are exercisable at any time for a period to be determined by the Directors, which shall not be less than 3 years and not more than 10 years from the date of grant.

As at 31 December 2007, the outstanding number of shares in respect of which options had been granted under the 2001 GEM Scheme was 15,909,150 (2006: 21,440,000), representing 0.81% (2006: 1.22%) of the existing share capital of the Company as at the date of this report.

Options granted under the 2001 GEM Scheme should be taken up within 28 days of the date of grant, upon payment of HK\$1.00 per grant.

The total number of Shares in respect of which options might be granted under the 2001 GEM Scheme was not permitted to exceed 10% of the Shares in issue at any point in time without prior approval from the Company's shareholders. No option might be granted to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25% of the number of Shares issued and issuable under all the options which might be granted under the 2001 GEM Scheme or any other share option schemes at the time it has proposed to grant the relevant options to that employee.

The 2005 GEM Scheme has replaced the 2001 GEM Scheme and there will be no options granted under the 2001 GEM Scheme in the future but the options granted during its life shall continue to be valid and exercisable in accordance with their terms of issue. The provision of the 2001 GEM Scheme shall remain in full force and effect.

REPORT OF THE DIRECTORS

(c) 2005 GEM Share Option Scheme

Pursuant to a share option scheme approved by the resolution of the Company's shareholders at the annual general meeting held on 26 April 2005 (the "2005 GEM Scheme") and approved by Sinolink pursuant to an ordinary resolution passed at the annual general meeting of Sinolink held on 18 May 2005, the Company might grant options to the Directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for the Shares. The exercise price of the share option would be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The 2005 GEM Scheme remained in force for a period of 10 years commencing on the date of adoption of the scheme, i.e. 18 May 2005.

The share options under the 2005 GEM Scheme are exercisable at any time for a period to be determined by the Directors, which shall not more than 10 years after the date of grant.

As at 31 December 2007, no option under the 2005 GEM Scheme was granted under the 2005 GEM Scheme.

Options granted under the 2005 GEM Scheme should be taken up within 28 days of the date of grant, upon payment of HK\$1.00 per grant.

The total number of Shares in respect of which options might be granted under the 2005 GEM Scheme was not permitted to exceed 10% of the Shares in issue at the date of approval of the 2005 GEM Scheme without prior approval from the Company's shareholders. No option might be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which might be granted under the 2005 GEM Scheme or any other share option schemes at the time it has proposed to grant the relevant options to that employee.

2005 GEM Scheme ended on the date on which dealings in the Shares commenced on Main Board (i.e. 8 December 2005), and no further options would be offered or granted after that date.

(d) 2005 Main Board Share Option Scheme

Pursuant to a share option scheme adopted by the shareholders of the Company at an extraordinary general meeting held on 28 November 2005 ("2005 Main Board Scheme") and approved by the shareholders of Enerchina and Sinolink pursuant to an ordinary resolution passed at respective special general meeting of Enerchina and Sinolink held on 28 November 2005, the Company may grant options to the Directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for Shares in the Company. The exercise price of the share option will be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

2005 Main Board Scheme will remain in force for a period of 10 years commencing on 28 November 2005.

The share options under 2005 Main Board Scheme are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years after the date of grant.

As at 31 December 2007, the outstanding number of shares in respect of which options had been granted under 2005 Main Board Scheme was 18,760,000 (2006: 5,000,000), representing 0.96% (2006: 0.28%) of the existing share capital of the Company as at the date of this report.

Options granted under 2005 Main Board Scheme must be taken up within 28 days of the date of grant, upon payment of HK\$1.00 per grant.

The total number of Shares in respect of which options may be granted under 2005 Main Board Scheme is not permitted to exceed 10% of the Shares in issue on the date of approval of 2005 Main Board Scheme without prior approval from the Company's shareholders. No option may be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which may be granted under 2005 Main Board Scheme or any other share option schemes at the time it is proposed to grant the relevant options to that employee.

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Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Original Exercise price HK\$ (Note 3)	Adjusted Exercise price HK\$ (Note 3)
Pre-GEM Scheme:				
Pre-GEM Options	04.04.2001	01.01.2003 – 03.04.2011	0.475	0.473
	04.04.2001	01.01.2004 – 03.04.2011	0.475	0.473
2001 GEM Scheme:				
2001 GEM Options	13.11.2001	13.02.2002 – 13.02.2007	0.940	N/A (Note 4)
	13.11.2001	13.05.2002 – 13.02.2007	0.940	N/A (Note 4)
	13.11.2001	13.11.2002 – 13.02.2007	0.940	N/A (Note 4)
2004 GEM Options	19.11.2004	31.12.2005 – 30.03.2011	3.500	3.483
	19.11.2004	31.12.2006 – 30.03.2011	3.500	3.483
	19.11.2004	31.12.2007 – 30.03.2011	3.500	3.483
2005 Main Board Scheme:				
2006 Options	03.10.2006	04.10.2007 – 27.11.2015	2.810	2.796 (Note 5)
	03.10.2006	04.04.2008 – 27.11.2015	2.810	2.796 (Note 5)
	03.10.2006	04.10.2008 – 27.11.2015	2.810	2.796 (Note 5)
2007 Options	16.03.2007	16.03.2008 – 27.11.2015	3.830	3.811 (Note 5)
	16.03.2007	16.03.2009 – 27.11.2015	3.830	3.811 (Note 5)
	16.03.2007	16.03.2010 – 27.11.2015	3.830	3.811 (Note 5)

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The following table discloses movements in the share options during the year:

Option types	Outstanding at 1.1.2007	Grant/ Adjustment during the year (Note 6)	Exercised during the year	Resigned as director during the year	Became other participant during the year	Lapsed during the year	Outstanding at 31.12.2007	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$) (Note 7)
Category 1: Directors								
Chan Wing Kin, Alfred	2007 Options	-	3,600,000	-	-	-	3,600,000	-
Wong Wai Yee, Peter	2007 Options	-	3,000,000	-	-	-	3,000,000	-
Kwan Yuk Choi, James	2007 Options	-	3,000,000	-	-	-	3,000,000	-
Ho Hon Ming, John	2007 Options	-	3,000,000	-	-	-	3,000,000	-
Ou Yaping	Pre-GEM Options	3,600,000	18,000	(3,618,000)	-	-	-	4.540
Chen Wei	Pre-GEM Options	3,600,000	18,000	-	-	-	3,618,000	-
	2004 GEM Options	3,000,000	15,000	-	-	-	3,015,000	-
Shen Lian Jin	Pre-GEM Options	300,000	1,500	(301,500)	-	-	-	4.530
	2004 GEM Options	2,000,000	10,000	-	-	-	2,010,000	-
	2007 Options	-	1,000,000	-	-	-	1,000,000	-
Tang Yui Man, Francis	2004 GEM Options	3,000,000	15,000	-	-	-	3,015,000	-
Cheung Hon Kit	2004 GEM Options	800,000	4,000	(482,400)	(321,600)	-	-	4.050
Li Xiao Ru	2004 GEM Options	800,000	1,600	(480,000)	(321,600)	-	-	4.209
Zhang Keyu (Note 8)	2004 GEM Options	2,000,000	10,000	-	(2,010,000)	-	-	-
Total for Directors		19,100,000	13,693,100	(4,881,900)	(2,653,200)	-	25,258,000	

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Option types	Outstanding at 1.1.2007	Grant/ Adjustment during the period (Note 6)	Exercised during the period	Resigned as director during the period	Became other participant during the period	Lapsed during the period	Outstanding at 31.12.2007	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$) (Note 7)
Category 2:								
Other participant								
Pre-GEM Options	-	-	-	-	562,800	-	562,800	-
2004 GEM Options	-	5,400	-	643,200	643,200	(648,600)	643,200	-
Total for Other Participants	-	5,400	-	643,200	1,206,000	(648,600)	1,206,000	
Category 3: Employees								
Pre-GEM Options	1,760,000	2,800	(1,200,000)	-	(562,800)	-	-	4.200 - 4.218
2001 GEM Options	1,970,000	-	(1,870,000)	-	-	(100,000)	-	3.809 - 3.891
2004 GEM Options	7,870,000	37,600	(1,560,250)	2,010,000 (Note 8)	(643,200)	(488,200)	7,225,950	4.218 - 4.530
2006 Options	5,000,000	(240,000)	-	-	-	(600,000)	4,160,000	4.230
2007 Options	-	1,000,000	-	-	-	-	1,000,000	-
Total for Employees	16,600,000	1,040,400	(4,870,250)	2,010,000	(1,206,000)	(1,188,200)	12,385,950	
All categories	35,700,000	14,738,900	(9,752,150)	-	-	(1,836,800)	38,849,950	

Notes:

- The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- During the year, no option was cancelled under all share option schemes.
- As a result of the issue of 176,072,501 new Shares of HK\$0.10 each ("Offer Share") at the subscription price of HK\$4.00 per Share on the basis of one Offer Share for every ten existing shares of HK\$0.10 each in the share capital of the Company on 31 May 2007 ("Open Offer"), the exercise prices per Share under the share option schemes should be adjusted as set out in the above table and the auditor of the Company had confirmed in writing to the Directors that such adjustments were made in accordance with the requirements set out in the note to Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005.
- There had been no outstanding 2001 GEM Options as at the completion of the Open Offer and therefore no price adjustment is necessary in respect of this specific category of options.
- Under the provisions of the 2005 Main Board Scheme, no adjustments to the exercise price or number of Shares to be issued under the Options are permitted without specific prior approval by the Shareholders. Accordingly, the adjustment above relating to Options granted under the 2005 Main Board Scheme will only take effect after the same has been approved by the Shareholders in general meeting.



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6. During the year, 14,600,000 options were granted under the 2005 Main Board Scheme on 26 March 2007 and the closing price of the shares immediately before the date on which the options were granted was HK\$3.809.

The fair value of the options granted during the year ended 31 December 2007 is HK\$1.55 (2006: HK\$0.94) per share and was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	2007	2006
Weighted average share price	HK\$3.74	HK\$2.80
Weighted average exercise price	HK\$3.83	HK\$2.81
Expected volatility	41.21%	30.03%
Expected life	5.0	5.0
Risk free rate	4.177%	3.961%
Expected dividend yield	0%	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognized total expense of HK\$14,908,000 (2006: HK\$9,288,000) for the year ended 31 December 2007 in relation to share options granted by the Company.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

7. During the year, the weighted average closing price of the shares at the date of exercise in respect of:-
- (a) the share options exercised by Directors was at a range of HK\$4.530 to HK\$4.540;
 - (b) the share options exercised by resigned Directors was at a range of HK\$4.050 to HK\$4.209; and
 - (c) the share options exercised by employees was at a range of HK\$3.809 to HK\$4.530.
8. Mr. Zhang Keyu resigned as an executive Director on 1 March 2007 but remains as an employee of the Company and he had 2,010,000 option shares outstanding under 2004 GEM Options as at 31 December 2007.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes disclosed above, at no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in note 32 to the financial statements, there are no contracts of significance to which the Company, its holding company, fellow subsidiaries or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING BUSINESS

During the year and up to the date of this report, the following Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Mr Chan Wing Kin, Alfred, the Chairman of the Company, is the Managing Director of **HKCG** and Mr KWAN Yuk Choi, James, an executive director of the Company, is an executive director of **HKCG**.

HKCG and its subsidiaries ("HKCG Group") are principally engaged in the production, distribution and marketing of gas and related activities in Hong Kong and the PRC. Although some of the businesses carried out by the **HKCG** Group are similar to the businesses carried out by the Group, they are of different scale and/or in different locations. Therefore, the Directors are of the view that the businesses of the **HKCG** Group do not compete directly with the businesses of the Group.

Save as disclosed above, none of the Directors had any interest in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly with the Group's business.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of Directors, the following shareholders (other than the Directors or chief executives of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:–

Long positions in Shares and underlying Shares in the Company

Name of Shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the Company's issued share capital as at 31.12.2007
Lee Shau Kee	Interest of controlled corporations	887,672,901 <i>(Note 1)</i>	45.37%
Rimmer (Cayman) Limited ("Rimmer")	Trustee	887,672,901 <i>(Note 2)</i>	45.37%
Riddick (Cayman) Limited ("Riddick")	Trustee	887,672,901 <i>(Note 2)</i>	45.37%
Hopkins (Cayman) Limited ("Hopkins")	Interest of controlled corporations	887,672,901 <i>(Note 2)</i>	45.37%
Henderson Development Limited ("HD")	Interest of controlled corporations	887,672,901 <i>(Note 2)</i>	45.37%
Henderson Land Development Company Limited ("HLD")	Interest of controlled corporations	887,672,901 <i>(Note 2)</i>	45.37%
Faxson Investment Limited ("Faxson")	Interest of controlled corporations	887,672,901 <i>(Note 2)</i>	45.37%
HKCG	Interest of controlled corporations	887,672,901 <i>(Notes 3)</i>	45.37%
Towngas International Company Limited ("TICL")	Interest of controlled corporations	850,202,901 <i>(Note 3)</i>	43.46%
Hong Kong & China Gas (China) Limited ("HK&CG (China)")	Beneficial owner	850,202,901 <i>(Note 3)</i>	43.46%

REPORT OF THE DIRECTORS

Name of Shareholder	Capacity	Aggregate interest in Shares	Approximate percentage of the Company's issued share capital as at 31.12.2007
Asia Pacific	Interest of controlled corporations	530,487,245 <i>(Note 4)</i>	27.12%
Enerchina	Interest of controlled corporations	530,487,245 <i>(Note 4)</i>	27.12%
Kenson	Beneficial owner	344,046,568 <i>(Note 4)</i>	17.59%
Supreme All	Beneficial owner	186,440,677 <i>(Note 4)</i>	9.53%

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. Lee Shau Kee. Dr. Lee Shau Kee was therefore taken to be interested in the same 887,672,901 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.
2. Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust ("Unit Trust"). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of HD. HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD. HLD through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was therefore taken to be interested in the same 887,672,901 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.
3. As HK&CG(China) was a wholly-owned subsidiary of TIGL, which in turn was a wholly-owned subsidiary of HKCG, each of TIGL and HKCG was therefore taken to be interested in the 850,202,901 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, HKCG was also taken to be interested in the 37,470,000 Shares held by its indirect wholly-owned subsidiary, Planwise Properties Limited.
4. Enerchina is interested in the entire issued share capital of Kenson and Supreme All. Enerchina was owned as to approximately 35.67% by Asia Pacific as at 31 December 2007. Therefore, by virtue of Part XV of the SFO, the 344,046,568 Shares and 186,440,677 Shares in which Kenson and Supreme All are interested respectively duplicate with the interest in Shares held by Enerchina and Asia Pacific. Mr. Ou Yaping is the sole beneficial shareholder of Asia Pacific and is deemed under Part XV of the SFO to have an interest in the Shares held by Kenson, Supreme All and Asia Pacific.



REPORT OF THE DIRECTORS

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2007, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Short positions in Shares and underlying Shares in the Company

As at 31 December 2007, the Company had not been notified of any short positions being held by any substantial shareholder in the Shares or underlying Shares of the Company.

OTHER PERSONS

As at 31 December 2007, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executives and the substantial shareholders as disclosed above) in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

CONNECTED TRANSACTION

Licence fee charged by Sinolink and rental expense charged by Shenzhen Sinolink Enterprises Co., Limited as stated in note 32 "Related Party Transactions" to the financial statements are continuing connected transactions exempted from disclosure under Chapter 14A of the Listing Rule. However, these transactions were terminated in 2007.

Loan facility to HKCG as stated in note 32 "Related Party Transactions" to the financial statements is a connected transaction exempted from disclosure under Chapter 14A of the Listing Rules.

During the year, there was no transaction which need to be disclosed as connected transaction in accordance with the requirements of the Listing Rules.

DONATIONS

During the year the Group made charitable and other donations amounting to HK\$60,462.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest suppliers of the Group in aggregate accounted for about 52.2% of its operating costs for the year. Purchases from the largest supplier accounted for about 30.2% of its operating costs. None of the Directors, their associates, or any shareholder (who to the knowledge of the Directors owned more than 5 per cent of the Company's share capital) had any interest in the Group's five largest suppliers. The percentage of the turnover attributable to the Group's five largest customers is less than 30 per cent during the year.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During August 2007 and September 2007, the Company purchased from the market a portion of the US\$200 million Senior Guaranteed Notes which are listed on the Singapore Exchange Securities Trading Limited. Please refer to the paragraph headed "Reduction of the US\$200 million Senior Guaranteed Notes" under the section of Business Review.

Save as disclosed above, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year ended 31 December 2007.

EMOLUMENT POLICY

As at 31 December 2007, the Group had 14,917 employees. Approximately 99% of the Group's employees are located in the PRC. The Group remunerates its employees based on their individual performance, job nature and responsibility. Moreover, the Group provides training and various benefits for its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics. No Director, or any of his associates, and executive, is involved in dealing his own remuneration.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes is set out in note 35 to the consolidated financial statements and under the heading "Share Option Schemes of the Company" in this report.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2007 have been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"). A resolution will be submitted to the forthcoming AGM of the Company to re-appoint Deloitte as the auditor of the Company.

On behalf of the Board
Ho Hon Ming, John
Executive Director and Company Secretary

Hong Kong, 25 March 2008