



Enerchina

Holdings Limited

威華達控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 622

Interim Report

2007

CORPORATE INFORMATION

Board of Directors

Executive Directors

Ou Yaping (*Chairman*)
Chen Wei (*Chief Executive Officer*)
Tang Yui Man Francis
Xiang Ya Bo

Non-executive Director

Sun Qiang Chang
(*Non-executive Vice Chairman*)

Independent Non-executive Directors

Lu Yungang
Davin A. Mackenzie
Xin Luo Lin

Authorised Representatives

Tang Yui Man Francis
Xiang Ya Bo

Audit Committee

Lu Yungang
Davin A. Mackenzie
Xin Luo Lin (*Chairman*)

Remuneration Committee

Lu Yungang
Davin A. Mackenzie
Ou Yaping
Xiang Ya Bo
Xin Luo Lin (*Chairman*)

Qualified Accountant

Yue Ming Wai, Bonaventure

Company Secretary

Lo Tai On

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business

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Hong Kong
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Fascimile : (852) 2851 0970
Stock Code : 622
Website : <http://www.enerchina.com.hk>
<http://www.irasia.com/listco/hk/enerchina>

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, HM 08
Bermuda

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor
Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Hong Kong Branch Share Transfer Office

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Legal Advisors

(*As to Hong Kong law*)
Woo, Kwan, Lee & Lo
Norton Rose

(*As to Bermuda law*)
Conyers Dill & Pearman

(*As to the PRC law*)
Haiwen & Partners

Principal Bankers

Bank of China (Hong Kong) Limited
China Construction Bank
Hang Seng Bank Limited
Industrial and Commercial Bank of
China (Asia) Ltd.
Shenzhen Development Bank Co., Ltd.

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FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2007

- Group's turnover from continuing operation decreased by 15.2% to HK\$617.2 million
- Group's gross profit from continuing operation decreased by 34.5% to HK\$58.1 million
- Net loss attributable to the equity holders of the Company amounted to HK\$42.5 million
- Loss per share of HK0.89 cents

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in electricity generation and the sale of electricity, and through Towngas China Company Limited (stock code: 1083, "Towngas China") (previously known as Panva Gas Holdings Limited), the sale and distribution of Liquefied Petroleum Gas ("LP Gas") and piped gas, and gas pipelines construction. The gas fuel business operation was discontinued on 28 February 2007 upon the completion of the agreement entered into between the Company, Towngas China and Hong Kong & China Gas (China) Limited ("HKCG") announced on 4 December 2006. Details of the transaction is set out in the section headed "Major Associate".

For the six months ended 30 June 2007, the Group recorded a turnover from continuing operation of HK\$617.2 million, representing a decrease of 15.2% as compared to the same period last year. Gross profit from continuing operation decreased to HK\$58.1 million for the six months ended 30 June 2007, a decrease of 34.5% as compared to the same period last year. The decrease in gross profit was mainly caused by the decrease in the Group's electricity generation and the reduced fuel subsidy amount received from the Shenzhen Government for the period.

Net loss attributable to the equity holders of the Company amounted to HK\$42.5 million. The loss is due to (i) the decrease in the Group's electricity generation; (ii) the reduced fuel subsidy amount received from the Shenzhen Government as compared to the same period last year; and (iii) the HK\$77.2 million loss on disposal and deemed disposal of Towngas China during the period which is partly offset by the improved operations of the gas fuel business.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Overview on electricity generation business

During the period, the Group's on-grid electricity generation amounted to 991.9 million kwh, representing a decrease of 20.3% as compared to 1,244.7 million kwh over the same period last year. As a result, the turnover of on-grid electricity decreased by 15.2% to HK\$617.2 million. This decrease was mainly caused by the repaired power generating unit, which was shut down from July to December 2006, having to undergo test runs in the first quarter of 2007 before operating at capacity. We have commenced the claims procedures with both our insurance provider and the manufacturer to recover the losses incurred for the shut down in 2006. As the final claims are still in discussions and are not finalized yet, we have not included the claims amount in the results for the six month ended 30 June 2007.

Direct operating expenses attributable to electricity supplies decreased by 12.5% to HK\$559.1 million due to the decrease in electricity generation and also the decrease in fuel cost per tonne of 7.7%. During the period, the Group incurred a total fuel cost of HK\$487.0 million.

The high world crude oil price had significantly affected the price of heavy oil which put the Group's power generation business under enormous pressure. Despite management's efforts in improving productivity, strengthening fuel procurement and inventory control, the gross profit margin of the power generation business for the period decreased by 2.8% as compared to the same period last year.

During the period, the Group was granted and received an amount of HK\$81.7 million, in compensation for the high fuel cost, by the Shenzhen Government for the period from November 2006 to May 2007, compared to HK\$164 million granted and received over the same period last year for the period from September 2005 to June 2006.

Currently, the Group's power plants are undergoing conversion from using heavy oil to natural gas, a more economical and environmentally friendly fuel source. Management plans to modify the two 180 MW power generator units so that these can use natural gas as an additional energy source, making them unique with dual-fuel firing capabilities by the second half of 2007. When completed, this will provide greater flexibility for the Group to select the most economical source of fuel. The proximity of the Group's power plant to the Guangdong Liquefied Natural Gas Terminal, which was completed in June 2006, ensures that the Group is well positioned for the change from heavy oil to natural gas.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Major Associate

On 4 December 2006, the Company, Towngas China and HKCG announced that the Towngas China has agreed to acquire the entire issued share capital of each of the eight companies held by HKCG (collectively the "Target Companies"), which hold equity interests in ten PRC companies that are engaged in piped gas fuel businesses. Towngas China also agreed that it will take assignment of the outstanding loans due from the Target Companies to HKCG or its associates, being approximately HK\$568.1 million, together with all interest accrued thereon, if any. In consideration of the acquisition (which includes taking assignment of the shareholder loans), Towngas China agreed to issue approximately 773 million new shares to HKCG, which represented 43.97% of the enlarged issued share capital of Towngas China. The resolutions related to the agreement were approved at the extraordinary general meeting of both Towngas China and Enerchina and the completion of the agreement took place on 1 March 2007, upon which HKCG became the single largest shareholder of Towngas China and Enerchina's shareholding in Towngas China was reduced from 57.94% to 32.47%.

In order to maintain the public float of Towngas China at the minimum level of 25%, on the same date, Enerchina placed down 33,918,400 shares in Towngas China at the placing price of HK\$3.77, raising HK\$126.1 million for the Group. The placement further reduced our shareholding in Towngas China to 30.54%.

Upon the integration of Towngas China with HKCG on 1 March 2007, Towngas China became the major associate of the Company.

For the six months ended 30 June 2007, Towngas China recorded a turnover of HK\$1,400.3 million, an increase of 12.6% over 2006. The gas fuel business was further divided into the sale of piped gas, gas pipeline construction and sale of LP gas. Turnover contribution from each of these activities amounted to HK\$281.1 million, HK\$113.4 million, and HK\$577.1 million, accounting for 20.1%, 8.1%, and 41.2%, respectively, of Towngas China's turnover. The rapid growth of the piped gas business underlines Towngas China's shift towards a utility business model with the sale of piped gas becoming a significant source of income.

Its gross profit increased by 16.8% to HK\$251.5 million and the profit attributable to equity holders amounted to HK\$50.5 million. The increase in gross profit was due to increases in the gross profit margins in all segments of the Towngas China's businesses.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Major Associate (Cont'd)

Profit attributable to equity holders of Towngas China of approximately HK\$50.5 million, represents a significant increase from the loss of HK\$221.1 million recorded for the same period last year. The turn around from a loss making position to a profitable one is mainly due to the loss in fair value of derivatives of HK\$181.6 million and the net interest expense incurred on the interest rate swaps of HK\$46.1 million recorded during the same period last year versus none recorded this year. A significant increase in contribution from associated companies from HK\$4.2 million in 2006 to HK\$49.9 million in 2007, and the additional contribution of HK\$30.3 million in 2007 from the six jointly controlled entities acquired from HKCG are all contributing factors for recording a profit in the first half of 2007.

SHARE BUY BACK

From 2 January 2007 to 16 March 2007, the Company repurchased a total of 40,983,000 of its own shares worth approximately HK\$26,850,000 in the market, in an effort to further enhance the value in the Company to its shareholders.

If market conditions allow, the Company will consider restarting the share buy back programme.

FINANCIAL POSITION

The Group's total borrowings decreased from HK\$3,103.1 million as at 31 December 2006 to HK\$897.6 million as at 30 June 2007. The net decrease is mainly due to the de-consolidation of the gas fuel business since 1 March 2007.

The total borrowings were mainly comprised of bank and other loans amounting to HK\$897.6 million. The bank borrowings were mainly used to finance the expansion of the power plant in Shenzhen. The Group's net debt to equity as at 30 June 2007 was 14.45%.

Total assets pledged in securing these loans have a net book value of HK\$753.6 million as at 30 June 2007. All the bank borrowings of the Group are at floating rates and denominated in both Renminbi and United States dollars. The Group's operation is mainly carried out in the PRC and substantial receipts and payments in relation to the operations are denominated in Renminbi. No financial instruments were used for hedging purpose. The Board will continue to evaluate and monitor the potential impact of the appreciation of Renminbi to the Group's business and manage the risks of using different financial instruments.

The Group's cash and cash equivalents amounted to HK\$373.5 million as at 30 June 2007 and are mostly denominated in Renminbi, Hong Kong dollars and United States dollars.

FINANCIAL POSITION (Cont'd)

Capital Commitments

As at 30 June 2007, the Group had capital commitments in respect of the acquisition of property, plant and equipment not provided in the financial statements amounting to HK\$12.2million.

OUTLOOK

The Group expects the growth in power consumption in the Guangdong province to continue in the second half of 2007. Looking ahead, the second half of 2007 still pose a challenging period for the Group's power generation business as the price of heavy oil is still a major determinant in the Group's power sector profitability. The Group considers that heavy oil price may not come down significantly in the near future and under the current electricity supply regime of the PRC, the Group cannot transfer the additional fuel costs to its customers and can only rely on partial compensation from the government for such rising fuel costs.

In view of this, in the second half of 2007, we will continue our efforts in improving productivity and closely monitor the conversion of our power plants from using oil fuel to natural gas. The Group will also continue our discussions in securing the supply of natural gas to coincide with the completion of the conversion of the power plants, which is expected to be completed and will undergo a trial run in using natural gas in the last quarter of 2007.

The expansion plans to increase the power generation capacity, from the Group's existing total installed capacity of 665,000 kilowatts to 1,450,000 kilowatts would also be expedited once discussions on the long term supply of natural gas have reached the final stage.

Looking ahead, Towngas China's integration with HKCG has shown results with improved interim results reported as compared to the same period last year. The main focus will still be on improving the management and cost efficiency of its existing projects by capitalising on operational synergies with HKCG, focusing on the development of piped gas projects with an emphasis in operational and safety management for long-term results and consolidating its existing LP Gas operation while allocating resources to the development of new LP Gas projects on a selective basis.

With the integration of Towngas China into HKCG from 1 March 2007 onwards, the Group will remain as a major strategic investor in Towngas China. We are confident and optimistic about its prospects and if the opportunity arises, will capitalize on its value and enhance returns to our shareholders.

In view of the continued growth in China's economy and the unrelenting demand for energy and natural resources, the Group will continue to pursue opportunities in these businesses. We are currently holding various preliminary discussions on such possible investment opportunities in the energy and related sector.

INTERIM DIVIDEND

In order to retain resources for the Group's business development, the Board does not declare an interim dividend for the six months ended 30 June 2007 (2006: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2007, the Group employed approximately 193 full time employees. The Group recognizes the importance of high caliber and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. In addition, share options may be granted to certain eligible directors and employees of the Group in accordance with the terms of the approved share option scheme adopted by the Group.

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

During the six months ended 30 June 2007, the Company repurchased 40,983,000 shares on the Stock Exchange at an aggregate consideration of HK\$26,850,223. All of the shares were subsequently cancelled. The nominal value of the cancelled shares of HK\$409,830 during the period was credited to capital redemption reserve and the relevant aggregate consideration of HK\$26,850,223 was paid out from the Company's retained earnings. Details of the shares repurchased are as follows:

Month of repurchases	Number of shares repurchased	Price per share		Aggregate consideration
		Highest HK\$	Lowest HK\$	Paid HK\$
January 2007	40,935,000	0.67	0.63	26,823,823
March 2007	48,000	0.55	0.55	26,400
	<u>40,983,000</u>			<u>26,850,223</u>

The reason for the repurchases of shares was for the enhancement of shareholder value in the long term.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES *(Cont'd)*

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2007.

CORPORATE GOVERNANCE

During the period, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices in Appendix 14 to the Rule Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that in respect of the six months ended 30 June 2007, all Directors have complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Company has an audit committee ("Audit Committee") which was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive directors. The members of the Audit Committee are Messrs. Lu Yungang, Davin A. Mackenzie and Xin Luo Lin. The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The interim report of the Group for the six months ended 30 June 2007 had not been audited, but had been reviewed by the Company's auditors, Deloitte Touche Tohmatsu and the Audit Committee.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our gratitude to all staff for their devoted efforts and hard work.

By Order of the Board
Tang Yui Man Francis
Executive Director

Hong Kong, 13 September 2007

OTHER INFORMATION

Directors' Interests or Short Positions in Shares and in underlying Shares

At 30 June 2007, the interests or short positions of the Directors and chief executive of the Company in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required: (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 in Shares and underlying Shares

Name of Directors	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 30.6.2007
		Family interest	Corporate interest				
Lu Yungang	Beneficial owner	–	–	–	2,288,000	2,288,000	0.05%
Davin A. Mackenzie	Beneficial owner	–	–	–	2,288,000	2,288,000	0.05%
Ou Yaping	Beneficial owner, interest in controlled corporations and joint interest	3,237,960	2,882,792,295 (Note)	2,886,030,255	2,288,000	2,888,318,255	60.28%
Sun Qiang Chang	Beneficial owner	–	–	–	15,000,000	15,000,000	0.31%
Tang Yui Man Francis	Beneficial owner	–	–	–	22,880,000	22,880,000	0.48%
Xiang Ya Bo	Beneficial owner	–	–	–	22,880,000	22,880,000	0.48%
Xin Luo Lin	Beneficial owner	–	–	–	2,288,000	2,288,000	0.05%

Note: The 2,882,792,295 Shares represent the aggregate of: (i) the 1,971,690,942 Shares held by Sinolink Worldwide Holdings Limited ("Sinolink"); (ii) the 223,990,353 Shares held by Smart Orient Investments Limited ("Smart Orient"), which is a wholly-owned subsidiary of Sinolink; and (iii) 687,111,000 shares held by Asia Pacific Promotion Limited ("Asia Pacific") directly. Mr. Ou Yaping through his wholly-owned company, Asia Pacific holds 48.19% of the existing issued share capital of Sinolink and is therefore deemed to be interested in all these 2,882,792,295 Shares under the SFO.

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

(b) *Directors' interests or short positions in shares and underlying shares in associated corporation*

Name of Directors	Name of associated corporation	Capacity	Interest in shares			Total interest in shares	Interest in underlying shares pursuant to share options	Aggregate interest	Approximate percentage of the issued share capital of the associated corporation as at 30.6.2007
			Personal interest	Corporate interest	Family interest				
Ou Yaping	Towngas China	Beneficial Owner and interest in controlled corporation	–	590,487,245 (Note 4)	–	590,487,245	3,618,000	594,105,245	30.67%
	Asia Pacific	Beneficial owner	2	–	–	2	–	2	100%
Chen Wei	Towngas China	Beneficial owner	3,600,000	–	–	3,600,000	6,633,000	10,233,000	0.53%
Tang Yui Man Francis	Towngas China	Beneficial owner	4,400,000	–	–	4,400,000	3,015,000	7,415,000	0.38%

Notes:

1. The name of Panva Gas Holdings Limited was changed to Towngas China Company Limited (“Towngas China”) on 23 May 2007.
2. The number of share options was adjusted to reflect the effect of open offer with an assured allotment of one offer share for every ten existing shares of Towngas China on 25 June 2007.
3. Mr. Chen Wei was appointed as the executive director and chief executive officer of the Company on 23 May 2007.
4. The 590,487,245 shares in Towngas China represent the aggregate of 404,046,568 shares of Towngas China held by Kenson Investment Limited (“Kenson”) and 186,440,677 shares of Towngas China held by Supreme All Investments Limited (“Supreme All”). Kenson and Supreme All are wholly-owned subsidiaries of the Company. 45.82% interests of the Company are held by Sinolink and 48.41% interests of Sinolink are held by Asia Pacific. 14.34% interests of the Company are held by Asia Pacific. As Asia Pacific is owned by Mr. Ou Yaping, he is deemed under the SFO to be interested in such 590,487,245 shares of Towngas China.

Details of the Directors’ interests in share options granted by the associated corporation 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 scheme, the Company has granted to certain Directors of the Company options to subscribe the Share, details of which as at 30 June 2007 were as follows:

Name of Directors	Date of grant	Exercise period	Exercise price HK\$	Number of Shares subject to outstanding option as at 1.1.2007	Number of Shares subject to outstanding option as at 30.6.2007	Percentage of the issued share capital of the Company
Lu Yungang	09.06.2004	09.06.2005 - 08.06.2014	0.44	2,288,000	2,288,000	0.05%
Davin A. Mackenzie	20.10.2004	20.10.2005 - 19.10.2015	0.50	2,288,000	2,288,000	0.05%
Ou Yaping	09.06.2004	09.06.2004 - 08.06.2014	0.44	2,288,000	2,288,000	0.05%
Sun Qiang Chang	08.12.2005	08.12.2005 - 07.12.2015	0.83	15,000,000	15,000,000	0.31%
Tang Yui Man Francis	09.06.2004	09.06.2004 - 08.06.2014	0.44	22,880,000	22,880,000	0.48%
Xiang Ya Bo	09.06.2004	09.06.2004 - 08.06.2014	0.44	22,880,000	22,880,000	0.48%
Xin Luo Lin	09.06.2004	09.06.2004 - 08.06.2014	0.44	2,288,000	2,288,000	0.05%

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 period, no options was granted to or exercised by the Directors of the Company and no options held by the Directors was cancelled or lapsed under the share option scheme.
3. These options represent personal interest held by the Directors as beneficial owners.

(b) Interest in options to subscribe for Shares of associated corporation

Name of Directors	Name of associated corporation	Date of grant	Exercise period	Exercise Price HK\$	Number of shares subject to outstanding options as at 1.1.2007	Number of shares subject to outstanding options as at 23.5.2007	Adjusted exercise price after open offer HK\$	Adjusted number of shares after open offer	Number of shares outstanding options as at 30.6.2007	Approximate percentage of the issued share capital of associated corporation as at 30.6.2007
Ou Yaping	Towngas China	04.04.2001	01.01.2003-03.04.2011	0.475	1,800,000	N/A	0.473	1,809,000	1,809,000	0.09%
		04.04.2001	01.01.2004-03.04.2011	0.475	1,800,000	N/A	0.473	1,809,000	1,809,000	0.09%
Chen Wei	Towngas China	04.04.2001	01.01.2003-03.04.2011	0.475	–	1,800,000	0.473	1,809,000	1,809,000	0.09%
		04.04.2001	01.01.2004-03.04.2011	0.475	–	1,800,000	0.473	1,809,000	1,809,000	0.09%
		19.11.2004	31.12.2005-30.03.2011	3.500	–	900,000	3.483	904,500	904,500	0.05%
		19.11.2004	31.12.2006-30.03.2011	3.500	–	900,000	3.483	904,500	904,500	0.05%
		19.11.2004	31.12.2007-30.03.2011	3.500	–	1,200,000	3.483	1,206,000	1,206,000	0.06%
Tang Yui Man Francis	Towngas China	19.11.2004	31.12.2005-30.03.2011	3.500	900,000	N/A	3.483	904,500	904,500	0.05%
		19.11.2004	31.12.2006-30.03.2011	3.500	900,000	N/A	3.483	904,500	904,500	0.05%
		19.11.2004	31.12.2007-30.03.2011	3.500	1,200,000	N/A	3.483	1,206,000	1,206,000	0.06%

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. These options represent personal interest held by the Directors as beneficial owners.
3. The name of Panva Gas Holdings Limited was changed to Towngas China Company Limited ("Towngas China") on 23 May 2007.
4. The number of share options was adjusted to reflect the effect of open offer with an assured allotment of one offer share for every ten existing shares of Towngas China on 25 June 2007.
5. Mr. Chen Wei was appointed as the executive director and chief executive officer of the Company on 23 May 2007.

Save as disclosed above, at no time during the period, the Directors, chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for Shares (warrants or debentures of the Company, if applicable) or any of its associated corporation required to be disclosed pursuant to the SFO.

Arrangements to Purchase Shares or Debentures

Other than the share option schemes as disclosed herein, at no time the period was the Company, its holdings company, or any of its subsidiaries or fellow subsidiaries, party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of share in, or debenture of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Share Option Scheme of the Company

The Company operates a share option scheme, the 2002 Share Option Scheme under which the Board may, at its discretion, offer any employee (including any executive director) of the Company or its subsidiaries options to subscribe for Shares subject to the terms and conditions stipulated in the scheme. The 2002 Share Option Scheme was approved by the shareholders on 24 May 2002 and have a life of 10 years.

Details of specific categories options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
2004A Option	09.06.2004	09.06.2004 - 08.06.2014	0.440
	09.06.2004	09.06.2005 - 08.06.2014	0.440
	09.06.2004	09.06.2006 - 08.06.2014	0.440
	09.06.2004	09.12.2006 - 08.06.2014	0.440
2004B Option	20.10.2004	20.10.2005 - 19.10.2015	0.500
2005 Option	08.12.2005	08.12.2005 - 07.12.2015	0.830
2006A Option	24.01.2006	31.01.2007 - 24.05.2012	0.822
	24.01.2006	31.01.2008 - 24.05.2012	0.822
	24.01.2006	30.06.2008 - 24.05.2012	0.822
2006B Option	30.06.2006	30.06.2007 - 24.05.2012	0.460
	30.06.2006	30.06.2008 - 24.05.2012	0.460
	30.06.2006	31.12.2008 - 24.05.2012	0.460

The following table discloses movements in the Company's share options during the period:

	Option types	Outstanding at 1.1.2007	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2007
<i>Category 1: Directors</i>						
Lu Yungang	2004A Option	2,288,000	—	—	—	2,288,000
Davin A. Mackenzie	2004B Option	2,288,000	—	—	—	2,288,000
Ou Yaping	2004A Option	2,288,000	—	—	—	2,288,000
Sun Qiang Chang	2005 Option	15,000,000	—	—	—	15,000,000
Tang Yui Man Francis	2004A Option	22,880,000	—	—	—	22,880,000
Xiang Ya Bo	2004A Option	22,880,000	—	—	—	22,880,000
Xin Luo Lin	2004A Option	2,288,000	—	—	—	2,288,000
Total for Directors		69,912,000	—	—	—	69,912,000
<i>Category 2: Employees</i>						
Total for employees	2004A Option	13,733,339	—	(2,899,997)	—	10,833,342
	2006B Option	3,000,000	—	—	—	3,000,000
		16,733,339	—	(2,899,997)	—	13,833,342
All categories		86,645,339	—	(2,899,997)	—	83,745,342

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 period, 2,899,997 options were exercised, no option was granted, cancelled or lapsed under the share option scheme.
3. The weighted average closing share price immediately before the date of exercise of share options was HK\$0.621.

Substantial Shareholders

At 30 June 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 the Directors, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in Shares

Name	Capacity	Aggregate interest	Approximate percentage of the issued share capital as at 30.6.2007
Asia Pacific	Beneficial owner and interest of controlled corporations	2,882,792,295 (Note 1)	60.16%
Sinolink	Beneficial owner and interest of controlled corporation	2,195,681,295 (Note 2)	45.82%
Smart Orient	Beneficial owner	223,990,353	4.67%
Warburg Pincus & Co.	Interest of controlled corporation	477,524,377 (Note 3)	9.97%
Warburg Pincus Equity Partners, L.P.	Interest of controlled corporation	404,548,779 (Note 3)	8.44%
Warburg Pincus Ventures International, L.P.	Interest of controlled corporation	404,548,779 (Note 3)	8.44%
Atlantic Cay International Limited	Beneficial owner	404,548,779 (Note 3)	8.44%

Notes:

1. These Shares represent the aggregate of: (i) 687,111,000 Shares held directly by Asia Pacific; and (ii) 2,195,681,295 Shares held by Sinolink and its wholly owned subsidiary, Smart Orient, Asia Pacific is interested in approximately 48.41% interest in Sinolink and it is deemed to be interested in all the Shares interested by Sinolink.
2. These Shares represents the aggregate of: (i) 1,971,690,942 Shares held directly by Sinolink; and (ii) the number of Shares in which Smart Orient is interested as disclosed above.
3. Warburg Pincus & Co. ("WP") is the general partner of the limited partnerships Warburg Pincus Equity Partners, L.P. ("WPE") and Warburg Pincus Ventures International, L.P. ("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 International Limited ("Atlantic Cay").

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.

WPV is interested in 50% of issued share capital of Atlantic Cay and it is deemed to be interested in all the Shares held by Atlantic Cay.

Save as disclosed above, as at 30 June 2007, the Company has not been notified of any other interests or short positions in the shares or underlying shares of the Company which had been recorded in the register to be kept under Section 336 of the SFO.

Deloitte.

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF ENERCHINA HOLDINGS LIMITED (incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 18 to 38, which comprises the condensed consolidated balance sheet of Enerchina Holdings Limited as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
13 September 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	NOTES	Six months ended	
		30.6.2007 HK\$'000 (Unaudited)	30.6.2006 HK\$'000 (Unaudited and re-presented)
Continuing operation			
Turnover		617,177	727,600
Cost of sales		(559,081)	(638,873)
Gross profit		58,096	88,727
Other income	4	33,534	22,592
Administrative expenses		(24,876)	(25,313)
Other expenses		(1,996)	(151)
Finance costs	6	(31,225)	(34,025)
Share of results of associates		23,927	—
Profit before taxation		57,460	51,830
Taxation	7	(90)	(481)
Profit for the period from continuing operation		57,370	51,349
Discontinued operation	8		
Loss for the period from discontinued operation		(108,571)	(196,546)
Loss for the period		(51,201)	(145,197)
Attributable to:			
Equity holders of the Company		(42,481)	(88,256)
Minority interests		(8,720)	(56,941)
		(51,201)	(145,197)
Dividends	9	—	48,376
(Loss) earnings per share	10	HK cents	HK cents
From continuing and discontinued operations			
Basic		(0.89)	(1.82)
Diluted		(0.88)	(1.81)
From continuing operation			
Basic		1.18	1.06
Diluted		1.18	1.06

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2007

		30.6.2007 <i>HK\$'000</i> (Unaudited)	31.12.2006 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	11	1,396,128	3,732,306
Prepaid lease payments		40,932	189,730
Intangible assets		—	136,527
Goodwill		316,580	1,914,164
Interest in associates	12	2,404,369	644,940
Available-for-sale investments		1,486	172,014
		4,159,495	6,789,681
Current assets			
Inventories		164,568	232,599
Prepaid lease payments		1,693	5,605
Trade and other receivables, deposits and prepayments	13	311,361	698,444
Amount due from minority shareholders of a subsidiary		—	4,421
Investments held for trading		19,150	94,954
Pledged bank deposits		—	20,038
Bank balances and cash		373,473	957,395
		870,245	2,013,456
Current liabilities			
Trade, notes and other payables	14	495,354	737,766
Loans from minority shareholders of a subsidiary		—	25,352
Taxation payable		8,922	90,768
Borrowings - amount due within one year	15	506,708	602,042
		1,010,984	1,455,928
Net current (liabilities) assets		(140,739)	557,528
Total assets less current liabilities		4,018,756	7,347,209
Non-current liabilities			
Borrowings - amount due after one year	15	390,912	2,501,099
Deferred taxation		—	43,140
		390,912	2,544,239
Net assets		3,627,844	4,802,970

CONDENSED CONSOLIDATED BALANCE SHEET *(Cont'd)*

AT 30 JUNE 2007

		30.6.2007 HK\$'000 (Unaudited)	31.12.2006 HK\$'000 (Audited)
Capital and reserves			
Share capital	16	47,918	48,299
Reserves		3,579,353	3,640,464
Equity attributable to equity holders of the Company		3,627,271	3,688,763
Equity component of share option reserve of a listed subsidiary		—	14,002
Minority interests		573	1,100,205
Total equity		3,627,844	4,802,970

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

Attributable to equity holders of the Company

	Share capital	Share premium	Translation reserve	Capital reserve	General reserve	Contributed surplus	Share option reserve	Retained earnings	Equity component of share option reserve			Total
									Total	of a listed subsidiary	Minority interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	48,376	3,024,504	41,266	81,525	3,646	370,544	1,047	169,326	3,740,234	6,090	1,011,046	4,757,370
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	80,081	-	-	-	-	-	80,081	-	58,865	138,946
Realised on deemed disposal of interest in subsidiaries	-	-	(949)	-	-	-	-	-	(949)	-	-	(949)
Loss for the year	-	-	-	-	-	-	-	(79,621)	(79,621)	-	(87,824)	(167,445)
Total recognised income (expense) for the year	-	-	79,132	-	-	-	-	(79,621)	(489)	-	(28,959)	(29,448)
Issue of shares	14	669	-	-	-	-	(96)	-	587	-	-	587
Repurchase of shares	(91)	(6,982)	-	-	-	-	-	-	(6,073)	-	-	(6,073)
Transfer	-	-	-	-	2,981	-	-	(2,981)	-	-	-	-
Recognition of equity-settled share-based payments	-	-	-	-	-	-	2,880	-	2,880	9,288	-	12,168
Share options lapsed	-	-	-	-	-	-	(431)	431	-	-	-	-
Exercise of share options of a listed subsidiary	-	-	-	-	-	-	-	-	-	(1,376)	-	(1,376)
Dividend paid	-	-	-	-	-	-	-	(48,376)	(48,376)	-	-	(48,376)
Acquired on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	94,027	94,027
Capital contributions from minority shareholders	-	-	-	-	-	-	-	-	-	-	5,758	5,758
Change in minority interests on deemed disposal of interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	33,597	33,597
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	(10,764)	(10,764)
Reduction in minority interests on acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	(4,500)	(4,500)
At 31 December 2006	48,299	3,019,191	120,398	81,525	6,627	370,544	3,400	38,779	3,688,763	14,002	1,100,205	4,802,970

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Cont'd)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Attributable to equity holders of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Equity component of share option reserve of a listed subsidiary HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2007	48,299	3,019,191	120,398	81,525	6,627	370,544	3,400	38,779	3,688,763	14,002	1,100,205	4,802,970
Exchange differences arising on translation of foreign operations	-	-	28,032	-	-	-	-	-	28,032	-	20,104	48,136
Share of reserve of associates	-	-	32,802	-	-	-	-	-	32,802	-	-	32,802
Net income recognised directly in equity	-	-	60,834	-	-	-	-	-	60,834	-	20,104	80,938
Realised on deemed disposal of interest in subsidiaries	-	-	(3,020)	-	-	-	-	-	(3,020)	-	-	(3,020)
Realised on disposal and deemed disposal of subsidiaries	-	-	(51,360)	-	-	-	-	-	(51,360)	-	-	(51,360)
Loss for the period	-	-	-	-	-	-	-	(42,481)	(42,481)	-	(8,720)	(51,201)
Total recognised expense for the period	-	-	(54,380)	-	-	-	-	(42,481)	(96,861)	-	(8,720)	(105,581)
Issue of shares	29	1,455	-	-	-	-	(208)	-	1,276	-	-	1,276
Repurchase of shares	(410)	(26,440)	-	-	-	-	-	-	(26,850)	-	-	(26,850)
Transfer	-	-	-	-	(2,990)	-	-	2,990	-	-	-	-
Recognition of equity-settled share-based payments	-	-	-	-	-	-	109	-	109	-	-	109
Reduction of contribution surplus (note)	-	-	-	-	-	(370,000)	-	370,000	-	-	-	-
Released on disposal and deemed disposal of subsidiaries	-	-	-	-	-	-	-	-	-	(14,002)	(1,175,476)	(1,189,478)
Change in minority interests on deemed disposal of interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	64,460	64,460
At 30 June 2007	47,918	2,994,206	126,852	81,525	3,637	544	3,301	369,288	3,627,271	-	573	3,627,844

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Cont'd)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Attributable to equity holders of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Equity component of share option reserve of a listed subsidiary HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2006	48,376	3,024,504	41,266	81,525	3,646	370,544	1,047	169,326	3,740,234	6,090	1,011,046	4,757,370
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	(250)	-	-	-	-	-	(250)	-	(49)	(299)
Realised on deemed disposal of interest in subsidiaries	-	-	(79)	-	-	-	-	-	(79)	-	-	(79)
Loss for the period	-	-	-	-	-	-	-	(88,256)	(88,256)	-	(56,941)	(145,197)
Total recognised expense for the period	-	-	(329)	-	-	-	-	(88,256)	(88,585)	-	(56,990)	(145,575)
Transfer	-	-	-	-	1,264	-	-	(1,264)	-	-	-	-
Recognition of equity-settled share-based payments	-	-	-	-	-	-	2,727	-	2,727	4,238	-	6,965
Share options lapsed	-	-	-	-	-	-	(396)	396	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	(48,376)	(48,376)	-	-	(48,376)
Acquired on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	70,658	70,658
Capital contributions from minority shareholders	-	-	-	-	-	-	-	-	-	-	5,758	5,758
Change in minority interests on deemed disposal of interest in subsidiaries	-	-	-	-	-	-	-	-	-	-	4,470	4,470
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	(10,109)	(10,109)
Reduction in minority interests on acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	-	-	-	(4,500)	(4,500)
At 30 June 2006	48,376	3,024,504	40,937	81,525	4,910	370,544	3,378	31,826	3,606,000	10,328	1,020,333	4,636,661

Note: Pursuant to the ordinary resolution passed at the Annual General Meeting held on 23 May 2007 and in compliance to Bye-law 137 of the Company's bye-laws, the contribution surplus of the Company was cancelled by an amount of HK\$370 million and transferred to retained earnings.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	NOTE	Six months ended	
		30.6.2007 HK\$'000 (Unaudited)	30.6.2006 HK\$'000 (Unaudited and re-presented)
Net cash generated by operating activities		145,146	617,976
Net cash used in investing activities			
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	19	(439,145)	—
Investments in associates		(214,723)	(184,261)
Purchase of property, plant and equipment		(55,445)	(189,707)
Decrease in pledged bank deposits		20,038	63,125
Other investing cash flows		5,851	22,766
Acquisition of subsidiaries (net of cash and cash equivalents acquired)		—	(189,722)
		(683,424)	(477,799)
Net cash used in financing activities			
Repayments of bank and other loans		(189,395)	(438,072)
Other financing cash flows		(25,574)	(45,533)
New bank and other loans raised		155,031	245,441
Proceeds from exercise of share options of a listed subsidiary		5,958	2,460
Capital contribution from minority shareholders		—	5,758
		(53,980)	(229,946)
Net decrease in cash and cash equivalents		(592,258)	(89,769)
Cash and cash equivalents at beginning of the period		957,395	1,337,052
Effect of foreign exchange rate changes		8,336	(315)
Cash and cash equivalents at end of the period, representing bank balances and cash		373,473	1,246,968

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

1. BASIS OF PREPARATION

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 “Stock Exchange”).

The principal activity of the Group is supply of electricity. The Group was also engaged in sale and distribution of liquefied petroleum gas and natural gas (“Gas Fuel”) and construction of gas pipelines, which were discontinued in the current period (see note 8).

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard 34 Interim Financial Reporting.

At 30 June 2007, the Group had net current liabilities of HK\$141 million and reported a net decrease in cash and cash equivalents of HK\$592 million for the six months then ended. The net decrease is mainly due to the de-consolidation of the gas fuel business since 1 March 2007. The Group’s current liabilities as at 30 June 2007 included its interest-bearing bank loans of HK\$507 million that are repayable within twelve months from the balance sheet date. The Group has started discussion with the relevant banks for refinancing of such loans and the relevant banks have expressed their intention to provide refinancing of the outstanding loans. The directors of the Company are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future and be able to operate as a going concern. Accordingly, the directors are satisfied that it is appropriate to prepare the Group’s condensed consolidated financial statements on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) - INT 8	Scope of HKFRS 2 ³
HK(IFRIC) - INT 9	Reassessment of embedded derivatives ⁴
HK(IFRIC) - INT 10	Interim financial reporting and impairment ⁵

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 March 2006

³ Effective for annual periods beginning on or after 1 May 2006

⁴ Effective for annual periods beginning on or after 1 June 2006

⁵ Effective for annual periods beginning on or after 1 November 2006

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing costs ¹
HKFRS 8	Operating segments ¹
HK(IFRIC) - INT 11	HKFRS 2: Group and treasury share transactions ²
HK(IFRIC) - INT 12	Service concession arrangements ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group is primarily engaged in the supply of electricity. The Group was also involved in gas fuel business which was discontinued on 28 February 2007 (see note 8).

Segment information about these businesses is presented below:

Business segments

Six months ended 30 June 2007

	Continuing operation		Discontinued operation	Consolidated
	Electricity supplies	Total	Gas fuel business	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<u>617,177</u>	<u>617,177</u>	<u>421,459</u>	<u>1,038,636</u>
RESULT				
Segment result	<u>48,004</u>	48,004	(5,046)	42,958
Other income		33,534	1,804	35,338
Corporate expenses		(14,935)	—	(14,935)
Finance costs		(31,225)	(24,609)	(55,834)
Loss on deemed disposal arising from dilution of interest in associates		(1,845)	—	(1,845)
Loss on disposal and deemed disposal of subsidiaries		—	(77,201)	(77,201)
Loss on deemed disposal arising from dilution of interest in subsidiaries		—	(6,212)	(6,212)
Share of results of associates		<u>23,927</u>	<u>3,155</u>	<u>27,082</u>
Profit (loss) before taxation		57,460	(108,109)	(50,649)
Taxation		(90)	(462)	(552)
Profit (loss) for the period		<u>57,370</u>	<u>(108,571)</u>	<u>(51,201)</u>

3. SEGMENT INFORMATION (Cont'd)

Six months ended 30 June 2006

	Continuing operation		Discontinued operation	Consolidated
	Electricity supplies HK\$'000	Total HK\$'000	Gas fuel business HK\$'000	
TURNOVER	<u>727,600</u>	<u>727,600</u>	<u>1,243,931</u>	<u>1,971,531</u>
RESULT				
Segment result	<u>77,749</u>	77,749	100,605	178,354
Other income		22,592	46,495	69,087
Corporate expenses		(14,486)	(26,675)	(41,161)
Loss on deemed disposal arising from dilution of interest in subsidiaries		—	(5,913)	(5,913)
Finance costs		(34,025)	(126,765)	(160,790)
Changes in fair value of derivative financial instruments		—	(181,608)	(181,608)
Share of results of associates		—	4,225	4,225
Profit (loss) before taxation		51,830	(189,636)	(137,806)
Taxation		(481)	(6,910)	(7,391)
Profit (loss) for the period		<u>51,349</u>	<u>(196,546)</u>	<u>(145,197)</u>

4. OTHER INCOME

Other income mainly comprised of:

	Continuing operation		Discontinued operation		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30.6.2007	30.6.2006	30.6.2007	30.6.2006	30.6.2007	30.6.2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income on bank deposits	6,755	7,473	1,042	15,441	7,797	22,914
Dividend income						
- listed	—	—	—	189	—	189
- unlisted	—	—	149	11,083	149	11,083
	—	—	149	11,272	149	11,272
Discount on acquisition of interest in subsidiaries	—	—	—	12,998	—	12,998
Gain on fair value change on investments held for trading	14,937	12,833	—	—	14,937	12,833
Gain on disposal of properties, plant and equipment, net	—	—	—	454	—	454

5. DEPRECIATION

During the period, depreciation charge in respect of the Group's property, plant and equipment from continuing operation and discontinued operation amounting to HK\$50,473,000 (1.1.2006 to 30.6.2006: HK\$54,701,000) and HK\$17,299,000 (1.1.2006 to 30.6.2006: HK\$49,575,000) respectively.

6. FINANCE COSTS

	Continuing operation		Discontinued operation		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30.6.2007	30.6.2006	30.6.2007	30.6.2006	30.6.2007	30.6.2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank and other borrowings wholly repayable within five years	31,225	34,025	1,459	1,345	32,684	35,370
Interest on bank and other borrowings not wholly repayable within five years	—	—	—	1,384	—	1,384
Interest on convertible bonds	—	—	2,453	11,875	2,453	11,875
Interest on guaranteed senior notes	—	—	20,515	65,903	20,515	65,903
	<u>31,225</u>	<u>34,025</u>	<u>24,427</u>	<u>80,507</u>	<u>55,652</u>	<u>114,532</u>
Net interest expense on interest rate swaps	—	—	—	46,118	—	46,118
	<u>31,225</u>	<u>34,025</u>	<u>24,427</u>	<u>126,625</u>	<u>55,652</u>	<u>160,650</u>
Bank charges	—	—	182	140	182	140
	<u>31,225</u>	<u>34,025</u>	<u>24,609</u>	<u>126,765</u>	<u>55,834</u>	<u>160,790</u>

7. TAXATION

	Continuing operation		Discontinued operation		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30.6.2007	30.6.2006	30.6.2007	30.6.2006	30.6.2007	30.6.2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax:						
PRC Enterprise Income Tax	90	481	462	6,910	552	7,391
	<u>90</u>	<u>481</u>	<u>462</u>	<u>6,910</u>	<u>552</u>	<u>7,391</u>

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the relevant entities incurred tax losses in both periods. The tax rate applicable for all People's Republic of China ("PRC") subsidiaries ranges from 15% to 33%.

Pursuant to relevant laws and regulations in the PRC, certain of the Company's subsidiaries are entitled to exemption from Enterprise Income Tax under tax holidays and concessions. Enterprise Income Tax was calculated at rates given under the concessions.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Tax Law") by Order No. 63 of the President of the PRC, which will change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008. However, for the Company's subsidiaries which are entitled to the preferential tax treatment, the detailed implementation rules regarding the New Tax Law have not been issued and therefore the Group is not in a position to determine whether the Company's subsidiaries will still be entitled to the preferential tax treatment mentioned above.

8. DISCONTINUED OPERATION

On 4 December 2006, Towngas China Company Limited (“Towngas China”) (formerly known as “Panva Gas Holdings Limited”), a subsidiary of the Company then, entered into a sale and purchase agreement (the “Agreement”) with Hong Kong and China Gas (China) Company Limited (“HK&CG (China)”), a wholly-owned subsidiary of The Hong Kong and China Gas Company Limited (“HKCG”), and HKCG. Pursuant to the Agreement, Towngas China had conditionally agreed to purchase from HK&CG (China) the entire issued share capital of certain companies which hold, collectively, equity interests varying from 27% to 100% in certain PRC companies engaging in the operation of piped gas assets and related business in the PRC and to purchase and take assignment of the outstanding loans due from these to be acquired companies to HK&CG (China) or its associates as at the completion subject to the terms and conditions of the Agreement (the “Transaction”). In consideration for the Transaction, Towngas China has agreed to allot and issue 772,911,729 ordinary shares of HK\$0.10 each in the capital of Towngas China, each credited as fully paid, to HK&CG (China). Upon the completion of the above transactions, the shareholding of the Company in Towngas China was diluted and Towngas China ceased to be a subsidiary and became an associate of the Company with effect from 1 March 2007. Pursuant to an undertaking by the Company to the Stock Exchange that it would place down the shares held by it in Towngas China, to independent third parties, on or before the completion of the above transactions solely for the purpose of maintaining the public float of Towngas China (if necessary). In this connection, the Company disposed of 33,918,400 shares of Towngas China to independent third parties for an aggregate consideration of approximately HK\$126,064,000. Immediately after the above transactions, the Company holds 30.54% interests in Towngas China. Certain comparative figures were re-presented so as to reflect the results for the discontinued operation.

The loss for the period from the discontinued operation is analysed as follows:

	1.1.2007	1.1.2006
	to	to
	28.2.2007	30.6.2006
	HK\$'000	HK\$'000
Loss of gas fuel business operation for the period	(25,158)	(190,633)
Loss on disposal and deemed disposal of subsidiaries	(77,201)	—
Loss on deemed disposal arising from dilution of interest in subsidiaries	(6,212)	(5,913)
	<u>(108,571)</u>	<u>(196,546)</u>

8. DISCONTINUED OPERATION (Cont'd)

The results of the gas fuel business were as follows:

	1.1.2007 to 28.2.2007 HK\$'000	1.1.2006 to 30.6.2006 HK\$'000
Turnover	421,459	1,243,931
Cost of sales	(370,458)	(1,028,686)
Gross profit	51,001	215,245
Other income	1,804	46,495
Distribution and selling expenses	(16,682)	(40,269)
Administrative expenses	(39,334)	(99,345)
Other expenses	(31)	(1,701)
Finance costs	(24,609)	(126,765)
Changes in fair value of derivative financial instruments	—	(181,608)
Share of results of associates	3,155	4,225
Loss before taxation	(24,696)	(183,723)
Taxation	(462)	(6,910)
Loss for the period	(25,158)	(190,633)
Loss on disposal and deemed disposal of subsidiaries	(77,201)	—
Loss on deemed disposal arising from dilution of interest in subsidiaries	(6,212)	(5,913)
Loss for the period from discontinued operation	(108,571)	(196,546)
Attributable to:		
Equity holders of the Company	(99,200)	(139,719)
Minority interests	(9,371)	(56,827)
	(108,571)	(196,546)

During the period, Towngas China paid HK\$23 million (1.1.2006 to 30.6.2006: HK\$184 million) to the Group's net operating cash flows, paid HK\$17 million (1.1.2006 to 30.6.2006: HK\$318 million) in respect of investing activities and contributed HK\$5 million (1.1.2006 to 30.6.2006: paid HK\$79 million) in respect of financing activities.

The carrying amounts of the assets and liabilities of Towngas China at the date of disposal are disclosed in note 19.

9. DIVIDENDS

	Six months ended	
	30.6.2007	30.6.2006
	HK\$'000	HK\$'000
Dividend recognised as distribution during the period:		
2005 final of HK1.0 cent per share	—	48,376
	<u> </u>	<u> </u>

The directors have resolved not to declare an interim dividend in respect of six months ended 30 June 2007.

10. (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended	
	30.6.2007	30.6.2006
	HK\$'000	HK\$'000
Loss for the purpose of basic loss for the period attributable to equity holders of the Company	(42,481)	(88,256)
	<u> </u>	<u> </u>

	Six months ended	
	30.6.2007	30.6.2006
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic loss per share	4,792,934,807	4,837,583,112
Effect of dilutive share options	16,103,800	25,542,778
	<u> </u>	<u> </u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,809,038,607	4,863,125,890
	<u> </u>	<u> </u>

10. (LOSS) EARNINGS PER SHARE (Cont'd)**From continuing operation**

The calculation of basic and diluted earnings per share from continuing operation attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended	
	30.6.2007	30.6.2006
	HK\$'000	HK\$'000
Loss for the period attributable to equity holders of the Company	(42,481)	(88,256)
Less: Loss for the period from discontinued operation	99,200	139,719
	<hr/>	<hr/>
Earnings for the purposes of basic and diluted earnings per share from continuing operation	56,719	51,463
	<hr/> <hr/>	<hr/> <hr/>

The denominators used are the same as those detailed above for basic and diluted loss per share.

From discontinued operation

Basic loss per share from discontinued operation is HK2.07 cents per share (2006: HK2.89 cents loss per share) and diluted loss per share for the discontinued operation is HK2.06 cents per share (2006: HK2.87 cents loss per share), based on the loss for the period from the discontinued operation of HK\$99 million (2006: HK\$140 million) and the denominators detailed above for basic and diluted loss per share.

11. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$55,445,000 (1.1.2006 to 30.6.2006: HK\$189,707,000) on acquisition of property, plant and equipment.

12. INTEREST IN ASSOCIATES

	30.6.2007	31.12.2006
	HK\$'000	HK\$'000
Share of net assets	1,607,987	555,371
Goodwill	796,382	89,569
	<hr/>	<hr/>
	2,404,369	644,940
	<hr/> <hr/>	<hr/> <hr/>

13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period ranging from 0-90 days to its customers.

Included in trade and other receivables, deposits and prepayments are trade receivables totalling HK\$258,059,000 (31.12.2006: HK\$218,769,000), the aged analysis of which is as follows:

	30.6.2007 <i>HK\$'000</i>	31.12.2006 <i>HK\$'000</i>
Aged:		
0 - 90 days	235,887	152,029
91 - 180 days	22,084	62,970
181 - 360 days	—	3,682
Over 360 days	88	88
	<u>258,059</u>	<u>218,769</u>

14. TRADE, NOTES AND OTHER PAYABLES

Included in trade, notes and other payables are trade and notes payables of HK\$350,523,000 (31.12.2006: HK\$258,019,000), the aged analysis of which is as follows:

	30.6.2007 <i>HK\$'000</i>	31.12.2006 <i>HK\$'000</i>
Aged:		
0 - 90 days	347,713	184,242
91 - 180 days	2,762	33,199
181 - 360 days	—	13,954
Over 360 days	48	26,624
	<u>350,523</u>	<u>258,019</u>

15. BORROWINGS

	30.6.2007 <i>HK\$'000</i>	31.12.2006 <i>HK\$'000</i>
Bank loans - secured	404,807	507,042
Bank loans - unsecured	492,813	520,050
Other loans - unsecured	—	119,823
Convertible bonds	—	349,506
Guaranteed senior notes	—	1,606,720
	<u>897,620</u>	<u>3,103,141</u>

15. BORROWINGS (Cont'd)

The maturity of the above borrowings is as follows:

	30.6.2007 HK\$'000	31.12.2006 <i>HK\$'000</i>
On demand or within one year	506,708	602,042
More than one year but not more than two years	188,433	567,795
More than two years but not more than three years	157,318	191,573
More than three years but not more than four years	45,161	107,908
More than four years but not more than five years	—	17,281
More than five years	—	1,616,542
	897,620	3,103,141
Less: Amount due within one year shown under current liabilities	(506,708)	(602,042)
Amount due after one year	390,912	2,501,099

At 30 June 2007, buildings in PRC and plant and machinery with an aggregate carrying amount of HK\$753,582,000 (31.12.2006: HK\$750,579,000) and bank deposits of nil (31.12.2006: HK\$20,038,000) were pledged to banks to secure general banking facilities granted to the Group.

The bank and other loans carry interests at 6 month London Interbank Offered Rate and PRC bank interest at a range of 5% - 7.5% (31.12.2006: 2% - 8%) per annum.

16. SHARE CAPITAL

	30.6.2007 & 31.12.2006 HK\$'000	
Ordinary shares of HK\$0.01 each		
Authorised:		
7,500,000,000 shares of HK\$0.01 each		75,000
		<u>75,000</u>
	No. of shares	Share capital <i>HK\$'000</i>
Issued and fully paid:		
At 1 January 2007	4,829,853,445	48,299
Exercise of share options (note a)	2,899,997	29
Repurchase of shares (note b)	(40,983,000)	(410)
	<u>4,791,770,442</u>	<u>47,918</u>
At 30 June 2007	<u>4,791,770,442</u>	<u>47,918</u>

16. SHARE CAPITAL (Cont'd)

Notes:

- (a) During the period, the Company allotted and issued 1,000,000 and 1,899,997 shares of HK\$0.01 each for cash at the exercise price of HK\$0.44 per share as a result of exercise of share options.

All the shares which were issued during the period rank pari passu with the then existing shares in all respects.

- (b) During the period, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK\$0.01 each	Price per share HK\$	Aggregate consideration paid HK\$'000
January 2007	40,935,000	0.63 - 0.67	26,824
March 2007	48,000	0.55	26

The above shares were cancelled upon repurchase. None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

17. RELATED PARTY TRANSACTION

During the period, the Group paid office expenses of HK\$636,000 (1.1.2006 to 30.6.2006: HK\$962,000) to Sinolink Worldwide Holdings Limited, the substantial shareholder of the Company. The office expense is determined with reference to actual costs incurred.

18. CAPITAL COMMITMENTS

	30.6.2007 HK\$'000	31.12.2006 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<u>12,175</u>	<u>44,529</u>

19. DISPOSAL OF SUBSIDIARIES

The Company's shareholding in Towngas China sub-group has been diluted following the completion of the series of transactions as referred to in note 8. Towngas China became an associate of the Company with effect from 1 March 2007. The net assets of Towngas China immediately before the completion of the transactions were as follows:

	28.2.2007 HK\$'000
Property, plant and equipment	2,402,711
Prepaid lease payments	155,376
Intangible assets	137,844
Goodwill	68,805
Interests in associates	658,736
Available-for-sale investments	170,678
Inventories	110,159
Trade and other receivables, deposits and prepayments	591,321
Bank balances and cash	565,209
Trade, notes and other payables	(488,973)
Loans from minority shareholders of a subsidiary	(20,864)
Taxation	(80,992)
Deferred taxation	(43,561)
Borrowings	(2,124,502)
	<hr/>
Net assets	2,101,947
Equity component of share option reserve of a listed subsidiary	(14,002)
Minority interests	(1,175,476)
Attributable goodwill	1,487,559
Release of translation reserve	(51,360)
	<hr/>
	2,348,668
Initial carrying amount of interest in associates	(2,145,403)
Loss on disposal and deemed disposal of subsidiaries	(77,201)
	<hr/>
Consideration received under the transactions	126,064
	<hr/> <hr/>
Satisfied by:	
Cash	126,064
	<hr/> <hr/>
Net cash outflow arising on disposal:	
Cash consideration	126,064
Bank balances and cash disposed of	(565,209)
	<hr/>
Net outflow of cash and cash equivalents in respect of disposal of subsidiaries	(439,145)
	<hr/> <hr/>

The impact of Towngas China on the Group's results and cash flows in the current and prior periods is disclosed in note 8.