



Enerchina

Holdings Limited

威華達控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 622

Annual 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

Telephone
Facsimile
Stock Code
Website

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199 Des Voeux Road Central, Hong Kong
(852) 2521 1181
(852) 2851 0970
622
<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.
China Merchants Bank
UBS AG

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CHAIRMAN'S STATEMENT



I would like to present the annual results of Enerchina Holdings Limited ("Enerchina" or the "Company") and its subsidiaries (collectively refer to the "Group") for the year ended 31 December 2007.

YEAR 2007 FINANCIAL RESULTS

For the year ended 31 December 2007, the Group recorded a turnover from continuing operation of HK\$1,313.8 million, representing an increment of 13.1% as compared to the same period last year. Gross profit from continuing operation decreased to HK\$81.3 million for the year ended 31 December 2007, a drop of 47.4% as compared to the same period last year. Profits from continuing operation was increased by HK\$14.0 million or 16.8% from the last year's figure of HK\$83.4 million to HK\$97.4 million. The Group's audited consolidated loss attributable to shareholders for the year ended 31 December

2007 narrowed to HK\$2.4 million, a 97.0% improvement as compared to last year's loss of HK\$79.6 million. Basic loss per share was improved significantly by 97.0% year on year to HK0.05 cents.

OVERVIEW

Recognized as one of the BRIC countries (namely, Brazil, Russia, India and China), China continued to accomplish notable economic achievements and ranked the top among the BRIC countries in 2007. The gross domestic product ("GDP") posed double-digit growth in all four consecutive quarters for the whole year. The sum of the GDP for all four quarters of the year achieved a growth rate of 11.4% as compared to the corresponding period last year.

Electricity Generation Business

In the first half of 2007, the national electricity consumption per unit of GDP increased by 3.64% as compared to same period last year, showing the continued rapid growth in the demand for electricity. According to statistics provided by the State Power Information Network, the total power consumption in Guangdong Province was approximately 300.4 billion kWh for the period ended 31 December

2006, representing an increase of more than 12% over the corresponding period last year. But the total power generation in Guangdong Province was only increased by approximately 9% over the 2005's to approximately 235.8 billion kWh for the period ended 31 December 2006. This supply shortage gap has been widening during the year.



During the year, the Group's on-grid electricity generation amounted to 2,086 million kWh, representing a rise of 7.2% as compared to 1,946 million kWh over 2006. The main cause of the increase was the strong demand for electricity from the power grid, despite an operation disruption arising from the trial run in the first quarter of 2007 following the major repairs of power generating units in the second half of 2006; and the natural gas test run in the last quarter of 2007.



Cost control remained the main challenge faced by the Group's management. Although heavy oil price once slid from the peak in the first half of the year, it rebounded to a fresh record high again as at year end. The Group's power generation business was still under enormous pressure. The gross profit margin of the electricity generation business for the period narrowed despite the partial offset of the fuel subsidies from the Shenzhen Government.

The natural gas conversion test run result in the last quarter of 2007 was encouraging. The Group is striving to secure long term natural gas supply to coincide with the completion of the Guangdong LNG Terminal Phase II, which is only 8km away from our power plant.



Gas Fuel Business through its Associate, Towngas China Company Limited

On 4 December 2006, the Company, Towngas China Company Limited ("Towngas China") and Hong Kong & China Gas (China) Limited ("HKCG") announced that Towngas China agreed to acquire the entire issued share capital of the eight companies held by HKCG, which held equity interests in 10 PRC companies that are engaged in piped gas fuel businesses. This acquisition was completed on 1 March 2007. The Company believes that HKCG can offer tremendous value to enhance Towngas China's management, operations and portfolio. Together with the subsequent place down of Towngas China's interest by the Company to maintain the public float, our shareholding in Towngas China was reduced to 30.54%. HKCG then became the major shareholder of Towngas China.



CHAIRMAN'S STATEMENT

In September 2007, the Company further disposed of approximately 3.08% of Towngas China's shareholding to a third party on market at HK\$4.40 per share. The net proceeds of the disposal was approximately HK\$262 million. The Company intends to apply the net proceeds for business expansion of the Group. Subsequent to the disposal, our interest in Towngas China is 27.23% and HKCG holds 45.48% interest in Towngas China.

OUTLOOK

At the outset of 2008, a vast area in southern and central China was devastated by an unprecedented snowstorm in 50 years. With heavy snow and freezing rain snarling much of China for over four weeks, cutting electricity power and disrupting transportation affected numerous cities in Central and Southern China. Despite the government rendered all its effort, electricity power was slow to return. At least 20 of China's 31 provinces and major cities experienced blackouts, affecting over 100 million people.

Electricity shortages in the central and southern provinces were largely the consequences of ice weighed down power lines and the inadequate supply of coal for electricity generation. The Company believes that the government recognition of over reliance on coal-powered electricity and the voice to reform would pose opportunity for the Company's power generation business.

Looking ahead, Towngas China's integration with HKCG has shown strong signs of improving results reported as compared with last year's. Towngas China will continue to further integrate with HKCG so as to fully capitalize the operational and managerial synergies. Enerchina will remain a major strategic investor in Towngas China. The Board is confident and optimistic about its prospects, and if opportunity arises, will capitalize on its value and enhance returns to the shareholders.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to all the staff for their devoted efforts and hard work. I would also like to thank all our shareholders for their support over the past years.

Ou Yaping

Chairman

Hong Kong, 3 April 2008

CHIEF EXECUTIVE OFFICER'S REPORT

BUSINESS REVIEW

Overview of Electricity Generation Business

During the year, the Group's on-grid electricity generation amounted to 2,086 million kWh, representing a rise of 7.2% as compared to 1,946 million kWh over 2006. Notwithstanding the operation disruption arising from (i) the trial run in the first quarter of 2007 following the major repairs of two of the power generating units shut down in the second half of 2006; and (ii) the natural gas test run in the last quarter of 2007, the turnover increased by 13.1% to HK\$1,313.8 million. This was attributable to the strong demand for electricity from the power grid, in particular for the last quarter of 2007.

Direct operating expenses attributable to electricity supplies increased by 22.5% to HK\$1,232.6 million due to the escalating fuel cost especially in the second half of 2007 and the persistent appreciation of Renminbi ("RMB") against United States dollars ("USD"). During the year, the Group incurred a total fuel cost of HK\$1,032.3 million. The Group was granted an amount of HK\$300.5 million, in compensation for the high fuel cost, by the Shenzhen Government for the period from November 2006 to November 2007. The subsidy is to ensure the power plant to maintain its profitability in times of rising heavy oil cost.

The staggeringly high world crude oil price had significantly pushed up the price of heavy oil, thus, putting 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 year decreased to 6.2% as compared to the 13.3% in 2006.

Other income, which principally comprised interest income, change in fair value of investments held for trading, gain on partial disposal of associates, and insurance compensation, was increased from HK\$40.2 million in 2006 to HK\$104.1 million in 2007. This was mainly attributable to the (i) HK\$49.8 million receipt from insurance compensation due to the machinery breakdown; and (ii) HK\$16.0 million gain on partial disposal of Towngas China.

The HK\$20.2 million increase in administrative expense was mainly due to the write off of HK\$24.5 million retention monies for the disposal of 41% equity interest in Xin Hua Control Engineering Company Limited ("Xin Hua").

The profits from continuing operations for the year ended 31 December 2007 amounted to HK\$97.4 million as compared to the HK\$83.4 million for the 2006's. The growth, which was partly offset by the drop in profits from electricity generation business, was mainly results of (i) the share of HK\$48.2 million from Towngas China's profits for the period from 1 March 2007 to 31 December 2007; and (ii) the HK\$16.0 million gain arising from approximately 3.08% disposal in Towngas China on 28 September 2007.

The modification of the two 180 MW installed capacity power generators making them with dual-fuel firing capabilities was completed in September 2007. The successful test run in the fourth quarter of 2007 ensures Enerchina to equip itself on the use of natural gas, a more economical and environmentally friendly fuel source. The proximity of the Group's power plant to the Guangdong Liquefied Natural Gas Terminal, the second phase of which is scheduled to be completed by the end of 2008, allows the Group to well position the fuel conversion plan from heavy oil to natural gas.

CHIEF EXECUTIVE OFFICER'S REPORT

Overview of Gas Fuel Business through its Major Associate, Towngas China

The Group's investment in gas fuel business through Towngas China achieved a breakthrough after the disposal. During the year, Towngas China focused on the development of the piped gas business while allocating an appropriate amount of resources to the liquefied petroleum gas ("LP Gas") business and further rationalized its existing operations. On the piped gas front, Towngas China (i) acquired a 100% equity interest in pipeline gas network and natural gas supplier located in Mianyang of Sichuan province in November 2007; (ii) established a wholly owned subsidiary in Gongzhuling of Jilin province in December 2007, in which it owns a 30 years' exclusive operating rights in piped gas business and a 50% equity interest in natural gas resource exploration right; and (iii) set up a 50% joint venture in Qijiang of Chongqing city in December 2007 which owns a 30 years' gas pipeline network operating right in Gunan, Sanjiang and Shijiao. In addition, Towngas China entered a 50% joint venture in Wuhan of Hebei province with Wuhan Gas Thermal Group Limited in December 2007. This joint venture can create synergy with its other LPG companies in gas source procurement and logistics distribution.

For the year ended 31 December 2007, Towngas China recorded turnover of approximately HK\$3,195.4 million, an increase of 20.9% over the previous year. Operating profits before returns on investments increased to approximately HK\$169.8 million from approximately HK\$0.3 million in 2006. The increase in operating profits was attributable to the increase in gross profits margin in all the three segments of Towngas China, namely, sale of piped gas, gas pipeline construction and sale of LPG. Profits after tax attributable to shareholders of Towngas China amounted to approximately HK\$144.5 million, a significant increase from loss of HK\$256.3 million recorded in 2006.

The reason for the turnaround from a loss to profit includes the elimination of the loss in fair value of derivatives of approximately HK\$124.2 million and the net interest expense incurred on the interest rate swaps of approximately HK\$12.9 million recorded in 2006 as a result of their termination. A significant improvement in contribution from associates from loss of HK\$13.7 million in 2006 to profit of HK\$105.8 million in 2007, and the additional contribution of HK\$51.3 million in 2007 from the six jointly controlled entities acquired from HKCG are also the growth contributing factors in 2007.

On 23 August 2007, the rating agency Standard and Poor's Rating Services ("S&P") raised the long term corporate credit rating on Towngas China from "BB+" to "BBB-". At the same time, S&P also raised the issue ratings on Towngas China's US\$50 million convertible bonds due 2008 and US\$200 million notes from "BB+" to "BBB-". The upgrades reflect the stronger financial profile as well as improving operational performance of Towngas China.

FINANCIAL POSITION

The Group's total borrowings decreased from HK\$3,103.1 million as at 31 December 2006 to HK\$894.2 million as at 31 December 2007. The decrease was mainly due to the de-consolidation of Towngas China since 1 March 2007. The bank borrowings as at 31 December 2007 were bank loan used to finance the expansion of the power plant in Shenzhen. The Group's total net interest-bearing debt to equity dropped substantially from 57.6% as at 31 December 2006 to 11.4% as at 31 December 2007.

Total assets pledged in securing these loans have a net book value of HK\$761.3 million as at 31 December 2007. The bank borrowings of the Group are mainly at floating rates and denominated in both RMB and USD. The Group's operation is mainly carried out in the PRC and substantial receipts and payments in relation to the operations are denominated in RMB. No financial instruments were used for hedging purpose. The Board will continue to evaluate and monitor the potential impact of the appreciation of RMB to the Group's business and manage the risks of using different financial instruments.

The Group's cash and cash equivalents amounted to HK\$466.4 million as at 31 December 2007 and are denominated in RMB, Hong Kong dollars and USD.

CAPITAL COMMITMENTS

As at 31 December 2007, the Group had capital commitments in respect of the acquisition of property, plant and equipment not provided in the consolidated financial statements amounting to HK\$5.6 million.

CONTINGENT LIABILITIES

In 2005, the Company disposed of its 41% equity interest in Xin Hua to a third party ("the Buyer"). A portion of the consideration in respect of such disposal or approximately HK\$24.5 million was paid into the accounts of an escrow agent (the "Escrow Agent") and shall be released to the Company on 31 March 2007, unless the Escrow Agent shall before such date receive a certificate from the Buyer of its objection to release such amount and request such amount to be released back to the Buyer.

The Company and the Escrow Agent have received such certificate dated 7 March 2007 from the Buyer and a claim against the sellers (including the Company) of US\$12.2 million. Under the equity transfer agreement, the maximum liability of the Company shall not exceed 37.3% of the relevant damage or its portion of escrow money of US\$3.2 million (equivalent to approximately HK\$24.5 million), whichever is lower.

The Company has sent to the Escrow Agent a certificate objecting the transfer of the escrow money to the Buyer, and has sent to the Buyer a notice that the Company is disputing the Buyer's claim. The Company is in the process of gathering further details of the Buyer's claim. During the year ended 31 December 2007, an allowance of US\$3.2 million (equivalent to approximately HK\$24.5 million) is made in respect of the full amount receivable included in the consolidated financial statements as at 31 December 2007.

CHIEF EXECUTIVE OFFICER'S REPORT

PROSPECTS

In view of the continued growth in China's economy, the Board continues to pursue investment opportunities with good strategic value in the energy and other sectors in order to enhance the shareholders' value of the Company. Preliminary discussions on such proposed investments are being carried out. The market will be informed in accordance with relevant regulations when the discussions reach a mature stage.

Electricity Generation Business

The national power shortage situation in early 2008 caused a number of provinces including Guangdong to ration electricity. It is estimated that power consumption in Guangdong Province will continue to rise and the supply shortage gap will continue to widen. Accordingly, the electricity output capacity of the Group will be raised to a higher level in the coming year.

If the Company can secure the long term supply of natural gas, it will kick off the second phase gas conversion by converting the remaining 235MW installed capacity generating unit into a gas-fired plant. The Company believes that the improvement in productivity, efficiency, gross profit margin and maintenance cost saving following the natural gas conversion plan will put itself in a better position in the industry.

Gas Fuel Business through its Major Associate, Towngas China

In 2008, Towngas China as a socially responsible enterprise will continue to work with HKCG to build up the Towngas brand as a renowned and quality brand. This can consolidate its leading position in China's gas fuel sector by providing customers with safety, caring, competent and efficient services while preserving the environment. In addition, Towngas China will continue to develop new gas fuel projects by increasing its stake in the north-east region and Sichuan province as well as seeking breakthrough in other regions of China. Given the enormous potential in the China's market arising from the rapid urbanization and industrialization, Towngas China will also seek to optimize its customer structure by expanding the more profitable industrial and commercial customer base, and to increase its sourcing power from upstream enterprises.

Starting from early 2007, the addition of HKCG's eight projects in the Shandong province and two projects in the Anhui province have created a super-regional footprint across north-east China for Towngas China. We believe that Towngas China will be able to extend its presence across the near contiguous provinces of Heilongjiang, Jilin, Liaoning, Shandong, Jiangsu, Anhui and Guangdong, in addition to Towngas China's significant operations in the Sichuan province. The increased market reach and assets base, synergies and experience and expertise of HKCG is expected to strengthen the business of Towngas China and bring priceless contributions for the shareholders of Enerchina.

FINAL DIVIDEND

In order to retain resources for the Group's business development, the Board does not recommend the payment of a final dividend for the year ended 31 December 2007 (2006: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group employed approximately 195 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 will 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.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to the staff and management team of the Group for their contribution during the year and also to give my sincere gratitude to all our shareholders for their continual support all these years.

Chen Wei

Chief Executive Officer

Hong Kong, 3 April 2008

DIRECTORS AND OFFICERS

Executive Directors

Mr. Ou Yaping, aged 46, is the chairman and executive director, member of remuneration committee and indirect substantial shareholder of the Company. He is also the chairman and executive director of Sinolink Worldwide Holdings Limited ("Sinolink") and the executive director of Towngas China Company Limited ("Towngas China") (formerly known as Panva Gas Holdings Limited). Mr. Ou is the brother of Mr. Xiang Ya Bo. He holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology in the PRC and is also the vice chairman of the board and a part-time professor of that institute. Mr. Ou was previously employed by a number of trading and investment companies in the PRC and Hong Kong. Mr. Ou has over 22 years of experience in investing, trading and corporate management. Mr. Ou is responsible for the overall business development, management and strategic planning of the Company. He has been the executive director since May 2002 and redesignated as the chairman of the Company since June 2005. He is also the director of Asia Pacific Promotion Limited ("Asia Pacific"), a substantial shareholder of the Company, whose interest in shares of the Company is disclosed in the section of "Substantial Shareholder".

Mr. Chen Wei, aged 46, is the chief executive officer and executive director of the Company. He is currently the executive director of Sinolink and Towngas China. Mr. Chen holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology in the PRC. He was previously employed by a number of large organisations and has over 22 years of experience in engineering, business administration, market development and management. Mr. Chen is responsible for the overall business development, management and strategic planning of the Group. He has been the chief executive officer and executive director since May 2007.

Mr. Xiang Ya Bo, aged 51, is the executive director and member of remuneration committee of the Company. He is the brother of Mr. Ou Yaping. Mr. Xiang is also the founder of Jiadeyu Information Consultant (Shenzhen) Co. Ltd. which engaged in the business of computer technologies and e-commerce. He graduated with an engineering degree. Mr. Xiang has over 18 years of experience in the field of corporate management, investment management and technical administration on computer technologies and e-commerce. Mr. Xiang is responsible for the overall business development, management and strategic planning of the power generation business. He has been the executive director since May 2002.

Mr. Tang Yui Man Francis, aged 45, is the executive director of the Company. Mr. Tang is also the chief executive officer and executive director of Sinolink and the alternate director to Mr. Ou Yaping of Towngas China. Mr. Tang holds a Bachelor's degree in Computer Studies from the University of Victoria in Canada and a Master of Business Administration degree from The City University of New York in the United States. Mr. Tang has numerous years of experience in management, accounting and finance. He is responsible for corporate and financial planning, strategic development and management of the Company. Mr. Tang has been the executive director since May 2002.

Non-executive Directors

Mr. Sun Qiang Chang, aged 51, is the non-executive director and non-executive vice chairman of the Company. Mr. Sun holds a Bachelor of Arts degree from the Beijing Foreign Studies University, a joint degree of MA/MBA from the Joseph Lauder Institute of International Management and the Wharton School of the University of Pennsylvania. His experience includes working as a translator at the United Nations in New York, as an investment banking associate at Lepercq, de Neuflyze & Co., a boutique leverage buyout firm, and as an executive director in the Investment Banking Division and the Principal Investment Area of Goldman Sachs (Asia) L.L.C. in Hong Kong.

Mr. Sun is the managing partner of Warburg Pincus' Hong Kong office, responsible for the firm's investment activities in North Asia. He is a director of GOME Electrical Appliances Holding Limited, China Huiyuan Juice Group Limited and Harbin Pharmaceutical Group Holding Co., Ltd. He has been the executive director since April 2000 and redesignated as a non-executive director and non-executive vice chairman of the Company since June 2005.

Independent Non-executive Directors

Mr. Lu Yungang, aged 45, is the independent non-executive director and member of audit committee and remuneration committee of the Company. He holds a Bachelor of Science degree from the Beijing University, a Master of Science degree from the Brigham Young University, and a Ph.D. in finance degree from the University of California (Los Angeles). Mr. Lu is the founder and managing director of APAC Capital Group, an investment management company focusing on Greater China markets. Prior to founding APAC Capital Group, he was a research analyst at a number of leading investment banks. Mr. Lu has over 13 years of experience in investment research and management. He is also the independent non-executive director of Kasen International Holdings Limited. He has been the independent non-executive director of the Company since May 2004.

Mr. Davin A. Mackenzie, aged 48, was appointed as the independent non-executive director of the Company in August 2004. He is also the member of audit committee and remuneration committee of the Company. Mr. Mackenzie has a bachelor degree of arts from Dartmouth College, the US, a master degree of business administration from Wharton School, the US and a master degree of arts in international studies from the University of Pennsylvania, the US. Mr. Mackenzie also attended the World Bank Executive Development Program at Harvard Business School, the US in 1999. He is a managing director and the Beijing representative of Peak Capital L. L. C. ("Peak Capital"), a private equity and advisory firm. Prior to joining Peak Capital, Mr. Mackenzie was with the International Finance Corporation ("IFC") for 7 years from 1993 to 2000. During the last 4 years with the IFC, he was its resident representative in the PRC. Prior to the IFC, he worked for Mercer Management Consulting in Washington, the US and the Bank of Boston Taipei Branch, Taiwan. He is on the Strategic Planning and Development Committee and is the former Chair of the Board of Governors of the Western Academy of Beijing and is on the management committee and the former chairman of Sports Beijing. He is also the independent non-executive director of Sinolink, AsiaInfo Holdings Inc. and The 9 Limited.

DIRECTORS AND OFFICERS

Mr. Xin Luo Lin, aged 59, is the independent non-executive director and chairman of audit committee and remuneration committee of the Company. He postgraduated from the Peking University in the PRC and is the Justice of Peace in New South Wales of Australia. Mr. Xin also holds directorships in a number of companies in Hong Kong. He is also the independent non-executive director of Sinolink. He has been the independent non-executive director of the Company since April 2001.

QUALIFIED ACCOUNTANT

Mr. Yue Ming Wai, Bonaventure, aged 40, is the qualified accountant of the Company. Mr. Yue is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Hong Kong Institute of Certified Public Accountants. He is also a Chartered Accountant in England & Wales and Australia. He has extensive experience in accounting, auditing, corporate finance and merger & acquisitions. Mr. Yue joined the Group in September 2007.

REPORT OF THE DIRECTORS

The directors of the Company (the “Directors”) present the annual report and the audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 41 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 35.

No interim dividend (2006: Nil) was paid to the shareholders during the year. The Board does not recommend the payment of a final dividend for the year ended 31 December 2007 (2006: Nil).

PROPERTY, PLANT AND EQUIPMENT

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

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 38.

The Company’s reserve available for distribution to shareholders at 31 December 2007 amounted to HK\$246,627,000 (2006: HK\$282,279,000).

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors:

Ou Yaping (*Chairman*)

Chen Wei (*Chief Executive Officer*)

(*appointed on 23 May 2007*)

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

In accordance with clause 86(2) of the bye-laws of the Company ("Bye-laws"), Mr. Chen Wei retires at the forthcoming Annual General Meeting ("AGM") and being eligible offers himself for re-election.

In accordance with clause 87(2) of the Bye-laws, Messrs Lu Yungang, Sun Qiang Chang and Xin Luo Lin shall retire by rotation at the forthcoming AGM and, 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 ("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.

No Director proposed for re-election at the forthcoming AGM has a service contract, 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

At 31 December 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 corporations (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 31.12.2007
		Personal interest	Family interest	Corporate interest				
Chen Wei	Beneficial Owner	8,775,000	-	-	8,775,000	30,000,000	38,775,000	0.81%
Lu Yungang	Beneficial owner	-	-	-	-	5,288,000	5,288,000	0.11%
Davin A. Mackenzie	Beneficial owner	935	-	-	935	5,288,000	5,288,935	0.11%
Ou Yaping	Beneficial owner, interest in controlled corporations and joint interest	-	7,973,476	1,761,735,558 (Note)	1,769,709,034	6,288,000	1,775,997,034	37.05%
Sun Qiang Chang	Beneficial owner	-	-	-	-	15,000,000	15,000,000	0.31%
Tang Yui Man Francis	Beneficial owner	13,893,750	-	-	13,893,750	32,880,000	46,773,750	0.98%
Xiang Ya Bo	Beneficial owner	-	-	-	-	32,880,000	32,880,000	0.69%
Xin Luo Lin	Beneficial owner	-	-	-	-	5,288,000	5,288,000	0.11%

Note: The 1,761,735,558 Shares represent the aggregate of (i) 1,701,660,412 Shares held by Asia Pacific Promotion Limited ("Asia Pacific") directly; and (ii) 60,075,146 Shares are held by Sinolink Worldwide Holdings Limited ("Sinolink"). Mr. Ou Yaping through his wholly-owned company, Asia Pacific holds 47.51% of the existing issued share capital of Sinolink and is therefore deemed to be interested in all these 1,761,735,558 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".

REPORT OF THE DIRECTORS

(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 31.12.2007
			Personal interest	Corporate interest	Family interest				
Ou Yaping	Towngas China	Beneficial Owner and interest in controlled corporation	3,618,000	530,487,245 (Note 4)	-	534,105,245	-	534,105,245	27.30%
Chen Wei	Towngas China	Beneficial owner	1,600,000	-	-	1,600,000	6,633,000	8,233,000	0.42%
Tang Yui Man Francis	Towngas China	Beneficial owner	-	-	-	-	3,015,000	3,015,000	0.15%

Notes:

1. Panva Gas Holdings Limited changed its name to Towngas China Company Limited 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 chief executive officer and executive director of the Company on 23 May 2007.
4. The 530,487,245 shares in Towngas China represent the aggregate of (i) 344,046,568 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"), which are wholly-owned subsidiaries of the Company. Mr. Ou Yaping through his wholly-owned company, Asia Pacific holds 35.50% interests in the Company and is therefore deemed to be interested in all these 530,487,245 shares under the SFO.

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 31 December 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	Granted during the year	Number of Shares subject to outstanding option as at 31.12.2007	Percentage of the issued share capital of the Company as at 31.12.2007
Chen Wei	13.11.2007	01.01.2010 – 12.11.2017	0.45	–	15,000,000	15,000,000	0.31%
	13.11.2007	01.01.2011 – 12.11.2017	0.45	–	15,000,000	15,000,000	0.31%
Lu Yungang	09.06.2004	09.06.2005 – 08.06.2014	0.44	2,288,000	–	2,288,000	0.05%
	13.11.2007	01.01.2010 – 12.11.2017	0.45	–	1,500,000	1,500,000	0.03%
	13.11.2007	01.01.2011 – 12.11.2017	0.45	–	1,500,000	1,500,000	0.03%
Davin A. Mackenzie	20.10.2004	20.10.2005 – 19.10.2015	0.50	2,288,000	–	2,288,000	0.05%
	13.11.2007	01.01.2010 – 12.11.2017	0.45	–	1,500,000	1,500,000	0.03%
	13.11.2007	01.01.2011 – 12.11.2017	0.45	–	1,500,000	1,500,000	0.03%
Ou Yaping	09.06.2004	09.06.2004 – 08.06.2014	0.44	2,288,000	–	2,288,000	0.05%
	13.11.2007	01.01.2010 – 12.11.2017	0.45	–	2,000,000	2,000,000	0.04%
	13.11.2007	01.01.2011 – 12.11.2017	0.45	–	2,000,000	2,000,000	0.04%
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%
	13.11.2007	01.01.2010 – 12.11.2017	0.45	–	5,000,000	5,000,000	0.10%
	13.11.2007	01.01.2011 – 12.11.2017	0.45	–	5,000,000	5,000,000	0.10%
Xiang Ya Bo	09.06.2004	09.06.2004 – 08.06.2014	0.44	22,880,000	–	22,880,000	0.48%
	13.11.2007	01.01.2010 – 12.11.2017	0.45	–	5,000,000	5,000,000	0.10%
	13.11.2007	01.01.2011 – 12.11.2017	0.45	–	5,000,000	5,000,000	0.10%
Xin Luo Lin	09.06.2004	09.06.2004 – 08.06.2014	0.44	2,288,000	–	2,288,000	0.05%
	13.11.2007	01.01.2010 – 12.11.2017	0.45	–	1,500,000	1,500,000	0.03%
	13.11.2007	01.01.2011 – 12.11.2017	0.45	–	1,500,000	1,500,000	0.03%

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. These options represent personal interest held by the Directors as beneficial owners.
3. During the year, 63,000,000 options were granted to the Directors and no options were exercised by Director and no options held by the Directors were lapsed or cancelled.

(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 subject to outstanding options as at 31.12.2007	Approximate percentage of the issued share capital of associated corporation as at
										31.12.2007
Chen Wei	Towngas China	04.04.2001	01.01.2003 – 03.04.2011	0.475	N/A	1,800,000	0.473	1,809,000	1,809,000	0.09%
		04.04.2001	01.01.2004 – 03.04.2011	0.475	N/A	1,800,000	0.473	1,809,000	1,809,000	0.09%
		19.11.2004	31.12.2005 – 30.03.2011	3.500	N/A	900,000	3.483	904,500	904,500	0.05%
		19.11.2004	31.12.2006 – 30.03.2011	3.500	N/A	900,000	3.483	904,500	904,500	0.05%
		19.11.2004	31.12.2007 – 30.03.2011	3.500	N/A	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. Panva Gas Holdings Limited was changed its name to Towngas China Company Limited 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 chief executive officer and executive director 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.

SHARE OPTION SCHEME OF THE COMPANY

2002 Share Option Scheme

Pursuant to an ordinary resolution passed at the special general meeting held on 24 May 2002 ("Date of Adoption"), the old share option Scheme was terminated and a new share option scheme of the Company (the "2002 Scheme") has been approved which will remain in force for a period of ten years from the Date of Adoption. The board of directors of the Company may grant options to eligible employees, including Directors and of its subsidiaries, to subscribe for Shares in the Company for the recognition of their contributions to the Group.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 10% of the shares of the Company in issue at the Date of Adoption ("Scheme Mandate Limit"), without prior approval from the Company's shareholders. The Company may seek approval of its shareholders in general meeting to renew the Scheme Mandate Limit provided that the total number of shares in respect of which options may be granted under the 2002 Scheme and any other share option schemes of the Company must not exceed 10% of the shares in issue as at the date of the approval to renew the Scheme Mandate Limit. The number of shares in respect of which options may be granted to any individual in any 12 month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. In addition, the number of shares in respect of which options may be granted to any participant (who is a substantial shareholder or an independent non-executive director of the Company, or any of their associates (within the meaning as ascribed under the Listing Rules)) in any 12 month period is not permitted to exceed 0.1% of the total number of shares in issue and HK\$5,000,000 in an aggregate value, based on the closing price of the shares at the date of each grant, without prior approval from the Company's shareholder.

REPORT OF THE DIRECTORS

A nominal consideration of HK\$1 is payable on the grant of an option. Option granted must be taken within 28 days of the date of grant. The exercise price is the highest of the closing price of the shares of the Company as stated on the Stock Exchange on the date of grant, the average of the closing prices of the share of the Company as stated on the Stock Exchange for the five business days immediately preceding the date of grant or the nominal value of the share of the Company.

At 31 December 2007, a total of 181,112,008 Shares (representing approximately 3.779% of the existing issued share capital of the Company as at the date of this annual report) may be issued upon exercise of all options which had been granted and yet to be exercised under the 2002 Scheme.

Details of specific categories options are as follows:

Option type	Date of grant	Exercise period	Exercise price <i>HK\$</i>
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
2006 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
2007 Option	13.11.2007	01.01.2010 – 12.11.2017	0.450
	13.11.2007	01.01.2011 – 12.11.2017	0.450

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

	Option types	Outstanding at 1.1.2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2007
<i>Category 1: Directors</i>						
Chen Wei	2007 Option	–	30,000,000	–	–	30,000,000
Lu Yungang	2004A Option	2,288,000	–	–	–	2,288,000
	2007 Option	–	3,000,000	–	–	3,000,000
Davin A. Mackenzie	2004B Option	2,288,000	–	–	–	2,288,000
	2007 Option	–	3,000,000	–	–	3,000,000
Ou Yaping	2004A Option	2,288,000	–	–	–	2,288,000
	2007 Option	–	4,000,000	–	–	4,000,000
Sun Qiang Chang	2005 Option	15,000,000	–	–	–	15,000,000
Tang Yui Man Francis	2004A Option	22,880,000	–	–	–	22,880,000
	2007 Option	–	10,000,000	–	–	10,000,000
Xiang Ya Bo	2004A Option	22,880,000	–	–	–	22,880,000
	2007 Option	–	10,000,000	–	–	10,000,000
Xin Luo Lin	2004A Option	2,288,000	–	–	–	2,288,000
	2007 Option	–	3,000,000	–	–	3,000,000
Total for Directors		<u>69,912,000</u>	<u>63,000,000</u>	<u>–</u>	<u>–</u>	<u>132,912,000</u>
<i>Category 2: Employees</i>						
Total for employees	2004A Option	13,733,339	–	(4,233,331)	(2,300,000)	7,200,008
	2006 Option	3,000,000	–	–	(3,000,000)	–
	2007 Option	–	41,000,000	–	–	41,000,000
		<u>16,733,339</u>	<u>41,000,000</u>	<u>(4,233,331)</u>	<u>(5,300,000)</u>	<u>48,200,008</u>
All categories		<u>86,645,339</u>	<u>104,000,000</u>	<u>(4,233,331)</u>	<u>(5,300,000)</u>	<u>181,112,008</u>

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. The closing price of the Company's shares immediately before the date of grant of the 2007 options, i.e. 12 November 2007 was HK\$0.44.
3. The weighted average closing share price immediately before the date of exercise of share options was HK\$0.60.
4. During the year, 104,000,000 options were granted and 4,233,331 options were exercised under the 2002 Scheme.
5. During the year, 5,300,000 options were lapsed under the 2002 Scheme. No options were cancelled under the 2002 Scheme.
6. The fair value of the options granted under 2002 Scheme during the year measured at the date of grant (13 November 2007) totalled approximately HK\$11,903,000 (2006: HK\$469,000). The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Expected volatility:	51% based on historical volatility
Expected dividend yield:	2.6% based on historical dividends
Expected life:	3.33 – 4.08 years from grant date
Risk free interest rate:	3.92% being the approximate yield of 5-year Exchange Fund Note on the grant date

The Black-Scholes options pricing model was developed to estimate the fair value of traded options which do not have vesting restrictions and are fully transferable. This pricing model requires the input of highly subjective assumptions including the volatility of the share price. As the Company's options are different from traded options and because changes in subjective input assumptions can materially affect the fair value estimate in the Directors opinion the model does not necessarily provide a reliable single measure of the fair value of the share options.

All the options forfeited before expiry of the options will be treated as lapsed options under the relevant share option scheme.

Based on the closing price of Shares on the date of grant and the above assumptions the computed fair value under the options granted during the year was at a range of approximately HK\$0.16 per option share.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' SERVICE CONTRACT

There is no unexpired directors' service contract which is not terminable by the Company within one year of any Director proposed for re-election at the forthcoming AGM.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, its subsidiaries or holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

The related party transactions set out in note 40(a) to the consolidated financial statements constitute connected transactions under Rule 14A of the Listing Rules and are exempt from reporting, announcement and independent shareholders' approval requirement of Chapter 14A of the Listing Rules.

During the year, the abovementioned connected transactions are in compliance with the relevant requirements under Chapter 14A of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

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 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 of shareholders	Capacity	Aggregate interest	Approximate percentage of the issued share capital as at 31.12.2007
Asia Pacific	Beneficial owner and interest of controlled corporations	1,761,735,558 (Note 1)	36.76%
Warburg Pincus & Co.	Interest of controlled corporation	477,524,377 (Note 2)	9.96%
Warburg Pincus Equity Partners, L.P.	Interest of controlled corporation	404,548,779 (Note 2)	8.44%
Warburg Pincus Ventures International, L.P.	Interest of controlled corporation	404,548,779 (Note 2)	8.44%
Atlantic Cay International Limited	Beneficial owner	404,548,779 (Note 2)	8.44%

REPORT OF THE DIRECTORS

Notes:

1. The 1,761,735,558 Shares represent the aggregate of (i) 1,701,660,412 Shares held by Asia Pacific directly; and (ii) 60,075,146 Shares are held by Sinolink. Mr. Ou Yaping through his wholly-owned company, Asia Pacific holds 47.51% of the existing issued share capital of Sinolink and is therefore deemed to be interested in all these 1,761,735,558 Shares under the SFO.
2. 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 31 December 2007, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for about 91% of the Group's turnover. Sales to the largest customer accounted for 89% of the Group's turnover.

The five largest suppliers of the Group in aggregate accounted for about 89% of its purchases for the year. Purchases from the largest supplier accounted for about 87% of its total purchases.

At no time during the year, did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) have an interest in the largest customers or any of the five largest suppliers of the Group for the year ended 31 December 2007.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the remuneration committee and is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 30 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company adopted all the code provisions in the Code on Corporate Governance Practices ("Code") contained in Appendix 14 of the Listing Rules as its own code on corporate governance practices.

During the year, the Company has complied with the code provisions as set out in the Code. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 27 to 33 of this annual report.

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.

REPORT OF THE DIRECTORS

The annual results of the Group for the year ended 31 December 2007 had been audited by the Company's auditor, Deloitte Touche Tohmatsu, and had been reviewed by the Audit Committee.

Details of the Company's Audit Committee are set out in Corporate Governance Report on page 31.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the year, 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 was charged in the share capital and the premium paid on repurchase of HK\$26,440,393 was charged against share premium in accordance with the Bermuda Companies Act 1981. Details of the shares repurchased are as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate
		Highest	Lowest	consideration
		HK\$	HK\$	Paid
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.

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 year.

AUDITOR

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

On behalf of the Board

Ou Yaping

Chairman

Hong Kong, 3 April 2008

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

Enerchina Holdings Limited is dedicated to maintaining a good and credible corporate governance practices with a view to being transparent, open and accountable to our shareholders, as well as to the stakeholders.

The Company has adopted all the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules as its own code on corporate governance practices since 2005.

STATEMENT OF COMPLIANCE

The Company has complied with the code provisions as set out in the Code during the year ended 31 December 2007.

BOARD OF DIRECTORS

Composition

The Board comprises 8 members (each member of the Board, a "Director"). Mr. Ou Yaping acts as the Chairman of the Board, whereas Mr. Chen Wei acts as the Chief Executive Officer of the Company. Other executive Directors are Messrs. Tang Yui Man Francis and Xiang Ya Bo. Mr. Sun Qiang Chang acts as non-executive Vice Chairman of the Company. The Company has three independent non-executive Directors, Messrs. Lu Yungang, Davin A. Mackenzie and Xin Luo Lin, all independent non-executive Directors have appropriate professional accounting experience and expertise.

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director is disclosed in pages 10 to 12 of this Annual Report.

Each independent non-executive Directors has confirmed that he is independent of the Company pursuant to Rule 3.13 of the Listing Rules and the Company also considers that they are independent.

Except for the family relationship between Mr. Xiang Ya Bo and Mr. Ou Yaping as disclosed in biographical details on page 10 of this Annual Report, there is no financial, business, family or other material relationship between any members of the Board.

Pursuant to the Bye-laws of the Company, the Directors retire on a rotational basis at least once every three years at the annual general meeting of the Company.

The term of office of each non-executive Director including the independent non-executive Directors is for a period of 1 year, from 1 January 2008 to 31 December 2008, subject to retirement by rotation and re-election in accordance with the Bye-laws, except for Mr. Sun Qiang Chang, who is a non-executive Director of the Company, whose term of office is for a period of 1 year from 2 June 2007 to 1 June 2008 subject to retirement by rotation.

CORPORATE GOVERNANCE REPORT

Functions

The Board, headed by the Chairman, is responsible for formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend, and supervision of management in accordance with the regulations governing the meetings of the Board, the Bye-laws and the rules governing the meetings of shareholders.

The executive Directors are responsible for day-to-day management of the Company's operations. The executive Directors conduct regular meetings with the senior management of the Group, at which operational issues and financial performance are evaluated.

The Company considers the essential of internal controls system and risk management function and the Board plays an important role in implementing and monitoring of internal controls and risk management.

Matters specifically decided by the Board and those reserved for the management are reviewed by the Board. These are established procedure to enable Directors to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Bye-laws of the Company contains provisions regarding responsibilities and operational procedures of the Board. The Board meets at least four times a year at regular intervals to consider operational reports of the Company and policies. Significant operational policies have to be discussed and passed by the Board.

During the year 2007, the Board held 4 regular Board meetings (within the meaning of the Code) at approximately quarterly interval and 14 Board meetings which were convened as necessary. Due notice and the Board papers were given to all Directors prior to each meeting in accordance with the Bye-laws of the Company and the Code. Details of individual attendance of Directors are set out below:–

	No. of meetings attended
<i>Executive Directors</i>	
Ou Yaping (<i>Chairman</i>)	17
Chen Wei (<i>Chief Executive Officer</i>)*	4
Xiang Ya Bo	16
Tang Yui Man Francis	18
<i>Non-executive Director</i>	
Sun Qiang Chang (<i>Non-executive Vice Chairman</i>)	1
<i>Independent Non-executive Directors</i>	
Lu Yungang	6
Davin A. Mackenzie	6
Xin Luo Lin	6

* Mr. Chen Wei was appointed as the Chief Executive Officer and Executive Director on 23 May 2007.

Chairman and Chief Executive Officer

The function and responsibility of Chief Executive Officer is being taken up by the Executive Director, Mr. Xiang Ya Bo until Mr. Chen Wei was appointed as Chief Executive Officer on 23 May 2007. Therefore, the role of chairman and chief executive officer is separate and not performed by the same individual in order to preserve independence and have a balanced judgment of views. The Board has appointed a chairman, who has executive responsibilities and provides leadership to the Board so that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. The said Executive Director or Chief Executive Officer has executive responsibilities over the business directions and operational decisions of the management and performance of the Group.

Responsibilities

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- attending regular board meetings and focusing on business strategy, operational issues and financial performance;
- active participation on the respective boards of directors of the subsidiaries and associated companies of the Company;
- approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of senior management, Board and shareholders of the Company;
- consideration of misuse of corporate assets and abuse in related party transaction; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to fulfill their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

Board Committees

A number of committees, including the Audit Committee and Remuneration Committee, have been set up by the Company, with specific terms of reference relating to authority and duties, to strengthen the Board's functions and enhance its expertise.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

During the year 2007 and as at the date of this Annual Report, the Remuneration Committee comprises two executive Directors, being Messrs. Ou Yaping and Xiang Ya Bo, and three independent non-executive Directors, being Messrs. Lu Yungang, Davin. A. Mackenzie and Xin Luo Lin and is chaired by Mr. Xin Luo Lin.

The terms of reference of the Remuneration Committee has complied with the Code.

The Remuneration Committee's responsibilities include the reviewing and considering the Company's remuneration policy for Directors and senior management, the determining of remuneration packages for executive Directors and senior management including benefits in kind, pension rights and compensation payments, and making recommendation to the Board regarding remuneration of non-executive Directors.

During the year 2007, the Remuneration Committee:

- reviewed the remuneration policy for 2007/2008;
- reviewed the remuneration of executive directors, non-executive director and independent non-executive directors;
- reviewed the remuneration of qualified accountant; and
- reviewed the annual share option policy.

The Remuneration Committee held 4 meetings during 2007 with individual attendance as follows:

Members of Remuneration Committee	No. of meetings attended
Xin Luo Lin (<i>Chairman of the committee</i>)	4
Ou Yaping	4
Xiang Ya Bo	4
Lu Yungang	4
Davin A. Mackenzie	4

Audit Committee

During the year 2007 and as at the date of this Annual Report, the Audit Committee comprises three independent non-executive Directors, namely Messrs. Lu Yungang, Davin. A. Mackenzie and Xin Luo Lin and is chaired by Mr. Xin Luo Lin.

The Audit Committee reports directly to the Board and reviews matters within the scope of audit, such as financial statements and internal controls, to protect the interests of the Company's shareholders.

The Audit Committee meets regularly with the Company's external auditors to discuss audit process and accounting issues, and reviews effectiveness of internal controls and risk evaluation. Written terms of reference, which describes the authority and duties of the Audit Committee are regularly reviewed and updated by the Board.

During 2007, the Audit Committee:

- reviewed financial statements for the year ended 31 December 2006 and for the six months ended 30 June 2007;
- reviewed of the effectiveness of the internal control system;
- reviewed of the external auditors' audit findings;
- reviewed and recommended re-appointment of auditor at the forthcoming annual general meeting; and
- reviewed and approved remuneration of auditor for 2007.

The Audit Committee held 3 meetings during the year. Details of individual attendance of its members are as follows:–

Members of Audit Committee	No. of meetings attended
Xin Luo Lin (<i>Chairman of the committee</i>)	3
Lu Yungang	3
Davin A. Mackenzie	3

NOMINATION OF DIRECTORS

The Board has not established a nomination committee. According to the Bye-laws, the Board has the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. In assessing the nomination of new Directors, the Board will take into account the nominee's qualification, ability and potential contributions to the Company. During the year 2007, a Board Meeting was held with the present of Mr. Ou Yaping, Mr. Xiang Ya Bo and Mr. Tang Yui Man Francis to consider and approve the appointment of Mr. Chen Wei as the chief executive officer and executive director of the Company.

CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") 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 year ended 31 December 2007, all Directors have complied with the required standard set out in the Model Code.

The Company has also established written guidelines regarding securities transaction on no less exacting than the terms of the Model Code for senior management and specific individual who may have access to price sensitive information in relation to the securities of the Company.

EXTERNAL AUDITORS

The external auditor of the Company is Deloitte Touche Tohmatsu ("Deloitte"). Deloitte provided professional services in respect of the audit of Company's consolidated financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs") for the year ended 31 December 2007. Deloitte also reviewed the 2007 unaudited interim financial report of the Company, prepared under HKFRSs.

Fees charged by Deloitte in respect of audit services amounted to HK\$1,300,000. Non-audit services fees charged by Deloitte were as follows:

Description of professional services rendered in connection with:–

	Fee <i>HK\$'000</i>
– Reviews of the interim financial report of the Company and its listed subsidiary for the six months ended 30 June 2007	360
– Other services	25
	<hr style="width: 100%; border: 0.5px solid black;"/>
	385
	<hr style="width: 100%; border: 1.5px solid black;"/>

INTERNAL CONTROL

The Company places great importance on internal control and risk management. The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Group. The review covered all material controls, including financial, operational and compliance controls and risk management functions. Based on the results of the review, the Group would take steps to further enhance the effectiveness of the internal control system.

GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue its operational existence for a foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

SHAREHOLDERS COMMUNICATION

Shareholders are provided with detailed information about the Company so that they can exercise their rights in an informed manner.

The Company uses a range of communication tools, such as the annual general meeting, the annual report, interim report, various notices, announcements and circulars, to ensure its shareholders are kept well informed of key business imperatives. Procedures for demanding a poll are included in all circulars with notices convening the general meetings of the Company and are also read out by the Chairman at such general meetings of the Company.

At the 2007 Annual General Meeting, a resolution was proposed by the Chairman in respect of each separate issue itemized on the agenda, including re-election of Directors. The Chairman of the Board and certain member of all Committee attended the 2007 Annual General Meeting answered questions from the shareholders of the Company.

RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare the financial statements which give a true and fair view of the state of affairs of the Group and of the loss and cash flows of the Group for the year. The statement of the Auditor regarding reporting responsibility for the financial statements is set out in the Independent Auditor's Report on page 34.

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

TO THE MEMBERS OF ENERCHINA HOLDINGS LIMITED

威華達控股有限公司

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Enerchina Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 111, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of The Companies of Bermuda Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 3 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	NOTES	2007 HK\$'000	2006 HK\$'000 (Re-presented)
Continuing operation			
Turnover	5	1,313,844	1,161,252
Cost of sales		(1,232,556)	(1,006,527)
Gross profit		81,288	154,725
Other income	6	104,082	40,204
Administrative expenses		(62,081)	(41,851)
Other expenses	7	(8,105)	(376)
Share of results of associates		48,170	–
Finance costs	8	(65,976)	(68,515)
Profit before taxation	9	97,378	84,187
Taxation	11	–	(806)
Profit for the year from continuing operation		97,378	83,381
Discontinued operations			
Loss for the year from discontinued operations	12	(108,571)	(250,826)
Loss for the year		(11,193)	(167,445)
Attributable to:			
Equity holders of the Company		(2,425)	(79,621)
Minority interests		(8,768)	(87,824)
		(11,193)	(167,445)
Dividends	13	–	48,376
		HK cents	HK cents
(Loss) earnings per share	14		
From continuing and discontinued operations			
– basic		(0.05)	(1.65)
– diluted		N/A	N/A
From continuing operation			
– basic		2.02	1.73
– diluted		2.01	1.72

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Property, plant and equipment	15	1,417,111	3,732,306
Prepaid lease payments	16	42,309	189,730
Intangible assets	17	–	136,527
Goodwill	18	316,580	1,914,164
Interest in associates	19	2,227,366	644,940
Available-for-sale investments	20	1,510	172,014
		4,004,876	6,789,681
Current assets			
Inventories	21	169,941	232,599
Prepaid lease payments	16	1,464	5,605
Trade and other receivables, deposits and prepayments	22	308,133	698,444
Amounts due from minority shareholders of a subsidiary	23	–	4,421
Investments held for trading	24	50,439	94,954
Pledged bank deposits	25	–	20,038
Bank balances and cash	25	466,441	957,395
		996,418	2,013,456
Current liabilities			
Trade, notes and other payables	26	354,186	737,766
Loans from minority shareholders of a subsidiary	23	–	25,352
Taxation payable		8,922	90,768
Borrowings – amount due within one year	27	586,760	602,042
		949,868	1,455,928
Net current assets		46,550	557,528
Total assets less current liabilities		4,051,426	7,347,209
Non-current liabilities			
Borrowings – amount due after one year	27	307,409	2,501,099
Deferred taxation	28	–	43,140
		307,409	2,544,239
Net assets		3,744,017	4,802,970

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTE	2007 HK\$'000	2006 HK\$'000
Capital and reserves			
Share capital	29	47,931	48,299
Reserves		3,695,536	3,640,464
Equity attributable to equity holders of the Company		3,743,467	3,688,763
Equity component of share option reserve of a listed subsidiary		–	14,002
Minority interests		550	1,100,205
Total equity		3,744,017	4,802,970

The consolidated financial statements on pages 35 to 111 were approved and authorised for issue by the Board of Directors on 3 April 2008 and are signed on its behalf by:

Ou Yaping
Chairman

Tang Yui Man Francis
Executive director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company								Equity component of share option reserve of a listed subsidiary		Minority interests	Total
	Share capital	Share premium	Translation reserve	Capital reserve	General reserve	Contributed surplus	Share option reserve	Retained earnings	Total	reserve of a listed subsidiary		
	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 differences arising on translation to presentation currency 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)	(5,982)	-	-	-	-	-	-	(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 and 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 to presentation currency	-	-	52,665	-	-	-	-	-	52,665	-	20,129	72,794
Share of reserve of associates	-	-	84,022	-	-	-	-	-	84,022	-	-	84,022
Total income recognised directly in equity	-	-	136,687	-	-	-	-	-	136,687	-	20,129	156,816
Realised on deemed disposal of partial interest in subsidiaries	-	-	(3,020)	-	-	-	-	-	(3,020)	-	-	(3,020)
Realised on disposal and deemed disposal of subsidiaries	-	-	(51,360)	-	-	-	-	-	(51,360)	-	-	(51,360)
Realised on deemed disposal of associates	-	-	(355)	-	-	-	-	-	(355)	-	-	(355)
Realised on partial disposal of associates	-	-	(443)	-	-	-	-	-	(443)	-	-	(443)
Loss for the year	-	-	-	-	-	-	-	(2,425)	(2,425)	-	(8,768)	(11,193)
Total recognised expense for the year	-	-	(55,178)	-	-	-	-	(2,425)	(57,603)	-	(8,768)	(66,371)
Issue of shares	42	2,124	-	-	-	-	(304)	-	1,862	-	-	1,862
Repurchase of shares	(410)	(26,440)	-	-	-	-	-	-	(26,850)	-	-	(26,850)
Transfer	-	-	-	-	(2,990)	-	-	2,990	-	-	-	-
Recognition of equity-settled share-based payments	-	-	-	-	-	-	608	-	608	-	-	608
Share options lapsed	-	-	-	-	-	-	(634)	634	-	-	-	-
Reduction of contribution surplus (note)	-	-	-	-	-	(370,000)	-	370,000	-	-	-	-
Realised 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 31 December 2007	47,931	2,994,875	201,907	81,525	3,637	544	3,070	409,978	3,743,467	-	550	3,744,017

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 contributed surplus of the Company was reduced by an amount of \$370 million and transferred to retained earnings.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007	2006
	HK\$'000	HK\$'000
		(Re-presented)
OPERATING ACTIVITIES		
Loss for the year	(11,193)	(167,445)
Adjustments for:		
Taxation	462	17,879
Share of results of associates	(51,325)	13,664
Depreciation of property, plant and equipment	123,356	191,052
Release of prepaid lease payments	2,323	5,915
Amortisation of intangible assets	819	4,107
Share-based payment expenses	608	12,168
Interest expenses	90,585	235,857
Interest income	(16,010)	(48,253)
Changes in fair value of derivative financial instruments	–	118,861
Loss (gain) on disposal of property, plant and equipment	121	(1,701)
Gain on fair value change on investments held for trading	(16,108)	(20,021)
Allowance for doubtful debts	24,562	40,000
Discount on acquisitions of interest in subsidiaries/ additional interest in a subsidiary	–	(28,585)
Dividend income	(521)	(11,272)
Allowance for amount due from an associate	–	108
Loss on disposal and deemed disposal of subsidiaries	77,201	–
Loss on deemed disposal arising from dilution of interest in subsidiaries	6,212	19,460
Gain on partial disposal of associates	(16,008)	–
Loss on deemed disposal arising from dilution of interest in associates	6,445	–
Impairment loss on available-for-sale investments	–	983
Operating cash flows before movements in working capital	221,529	382,777
Increase in inventories	(36,119)	(2,557)
Decrease in investments held-for-trading	60,623	79,566
(Increase) decrease in trade and other receivables, deposits and prepayments	(213,263)	664,377
Decrease in amount due from minority shareholders of a subsidiary	(67)	–
Increase (decrease) in trade, notes and other payables	82,369	(211,751)
Cash generated from operations	115,072	912,412
Interest paid on banks and other borrowings	(90,585)	(172,457)
Taxation paid in other jurisdiction	(4,842)	(12,163)
NET CASH FROM OPERATING ACTIVITIES	19,645	727,792

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	NOTES	2007 HK\$'000	2006 HK\$'000 (Re-presented)
INVESTING ACTIVITIES			
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	35	(439,145)	–
Proceed from partial disposal of associates		263,076	–
Settlement of derivative financial instruments		–	(433,612)
Investments in associates		(214,723)	–
Purchase of property, plant and equipment		(78,222)	(318,291)
Purchase of available for sale investments		(24)	–
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	34	–	(241,341)
Prepaid lease payments		(2,245)	(16,561)
Decrease in pledged bank deposits		21,515	223,204
Interest received		16,010	48,253
Proceeds from disposal of property, plant and equipment		89	33,614
Dividend received		521	11,272
Dividend received from an associate		–	4,343
NET CASH USED IN INVESTING ACTIVITIES		(433,148)	(689,119)
FINANCING ACTIVITIES			
Repayment of bank and other loans		(432,327)	(668,113)
Dividends paid		–	(48,376)
Dividends paid to minority shareholders of subsidiaries		–	(10,764)
Repurchase of shares		(26,850)	(6,073)
New bank and other loans raised		363,248	280,854
Proceeds from exercise of share options of a listed subsidiary		5,958	8,799
Capital contribution from minority shareholders		–	5,758
Advance from minority shareholders of a subsidiary		–	4,936
Issue of shares as a result of the exercise of share options		1,862	587
NET CASH USED IN FINANCING ACTIVITIES		(88,109)	(432,392)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(501,612)	(393,719)
CASH AND CASH EQUIVALENTS			
AT THE BEGINNING OF THE YEAR		957,395	1,337,052
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		10,658	14,062
CASH AND CASH EQUIVALENTS		466,441	957,395
AT THE END OF THE YEAR, REPRESENTING			
BANK BALANCES AND CASH			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" to the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HKD") while the functional currency of the Company is Renminbi ("RMB"). The reason for selecting HKD as its presentation currency is because the Company is a public company with its shares listed on the Stock Exchange, where most of its investors are located.

The principal activities of the Group are 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 current year (see note 12).

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, 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 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared. Accordingly, no prior period adjustment is required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

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

HKAS 1 (Revised)	Presentation of financial statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKAS 27 (Revised)	Consolidated and separate financial statements ²
HKFRS 2 (Amendment)	Vesting conditions and cancellations ¹
HKFRS 3 (Revised)	Business combinations ²
HKFRS 8	Operating segments ¹
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions ³
HK(IFRIC) – INT 12	Service concession arrangements ⁴
HK(IFRIC) – INT 13	Customer loyalty programmes ⁵
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction ⁴

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

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 March 2007

⁴ Effective for annual periods beginning on or after 1 January 2008

⁵ Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of other new or revised standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Goodwill arising on acquisition of additional interests in a subsidiary represents the excess of the cost of acquisition of the additional interests over the book value of the net assets of the subsidiary attributable to the additional interests acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

Discount on acquisitions arising on acquisition of additional interests in a subsidiary

Discount on acquisition arising on acquisition of additional interests in a subsidiary represents the excess of the book value of the net assets of the subsidiary attributable to the additional interest acquired over the cost of acquisition of the additional interests.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associates, less any identified impairment losses. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Goodwill arising on acquisitions prior to 1 January 2005

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. From 1 January 2005 onwards, the Group has discontinued amortisation of goodwill and such goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Goodwill arising on acquisitions on or after 1 January 2005

Any excess of the cost of acquisition over the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

Where a group entity transacts with an associate of the Group, profit and losses are eliminated to the extent of the Group's interest in the relevant associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Income from gas pipelines construction, representing gas connection revenue, is recognised when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the year. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

Revenue from electricity supply is recognised when electricity is supplied.

Revenue from gas supply is recognised when gas is used.

Revenue from sales of goods are recognised when goods are delivered and title has been passed.

Sales of securities are recognised when the sale agreement becomes unconditional.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments including financial assets of fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Exclusive operating rights for city pipeline network

Exclusive operating rights for city pipeline network are stated at cost less accumulated amortisation and any identified impairment loss. The cost incurred for the acquisition of exclusive operating rights is capitalised and amortised on a straight line basis over the estimated useful life of twenty to thirty years.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date as measured by reference to the value of work carried out during the year. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction contracts *(continued)*

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

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

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets

The Group's financial assets are mainly classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

The Group's financial assets at FVTPL are mainly the investments held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets *(continued)*

Effective interest method (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from minority shareholders of a subsidiary, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Impairment of financial assets *(continued)*

For certain categories of financial asset, such as trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the receivables past the credit period granted, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Bank and other borrowings/guaranteed senior notes

Interest-bearing bank and other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction cost) and the settlement or redemption of borrowings is recognised over the terms of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Convertible bonds

Convertible bonds issued by a subsidiary of the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the issuer's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial liabilities and equity *(continued)*

Convertible bonds (continued)

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the issuer, will remain in convertible bonds reserve until the conversion option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that related to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Other financial liabilities

Other financial liabilities including trade, notes and other payables and loans from minority shareholders of a subsidiary are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the consolidated balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Share options granted after 7 November 2002 and vested on or after 1 January 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the relevant lease terms. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group which are stated at functional currency of the respective group entity other than Hong Kong dollars are translated into Hong Kong dollars at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management has made various estimates based on past experience, expectations of the future and other information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation are disclosed in note 18.

5. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover

An analysis of the Group's turnover for the year, for both continuing and discontinued operations, is as follows:

	2007	2006
	HK\$'000	HK\$'000
Continuing operation		
Supply of electricity	1,313,844	1,161,252
Discontinued operations		
Sale and distribution of Gas Fuel and related products	408,396	2,311,696
Gas pipeline construction	13,063	331,220
	421,459	2,642,916
	1,735,303	3,804,168

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

5. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments

The Group is primarily engaged in the supply of electricity. The Group was also involved in gas fuel business which included the sale and distribution of Gas Fuel and related products, and gas pipeline construction, and was discontinued on 28 February 2007 (see note 12).

Segment information about these businesses is presented below.

	Continuing operation		Discontinued operations	
	Electricity supplies HK\$'000	Total HK\$'000	Gas fuel business HK\$'000	Consolidated HK\$'000
Year ended 31 December 2007				
TURNOVER	<u>1,313,844</u>	<u>1,313,844</u>	<u>421,459</u>	<u>1,735,303</u>
RESULT				
Segment result	<u>58,771</u>	58,771	(5,015)	53,756
Other income		88,074	1,804	89,878
Corporate expenses		(41,224)	(31)	(41,255)
Finance costs		(65,976)	(24,609)	(90,585)
Gain on partial disposal of associates		16,008	–	16,008
Loss on deemed disposal arising from dilution of interest in associates		(6,445)	–	(6,445)
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		48,170	3,155	51,325
Profit (loss) before taxation		97,378	(108,109)	(10,731)
Taxation		–	(462)	(462)
Profit (loss) for the year		<u>97,378</u>	<u>(108,571)</u>	<u>(11,193)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

5. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

	Continuing operation		Discontinued	Consolidated
	Electricity supplies HK\$'000	Total HK\$'000	operations Gas fuel business HK\$'000	
Year ended 31 December 2006				
TURNOVER	<u>1,161,252</u>	<u>1,161,252</u>	<u>2,642,916</u>	<u>3,804,168</u>
RESULT				
Segment result	<u>130,601</u>	130,601	64,018	194,619
Other income		40,204	58,788	98,992
Discount on acquisition of interest in subsidiaries		–	28,585	28,585
Corporate expenses		(18,103)	(64,602)	(82,705)
Finance costs		(68,515)	(168,557)	(237,072)
Loss on deemed disposal arising from dilution of interest in subsidiaries		–	(19,460)	(19,460)
Share of results of associates		–	(13,664)	(13,664)
Changes in fair value of derivative financial instruments		–	(118,861)	(118,861)
Profit (loss) before taxation		84,187	(233,753)	(149,566)
Taxation		(806)	(17,073)	(17,879)
Profit (loss) for the year		<u>83,381</u>	<u>(250,826)</u>	<u>(167,445)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

5. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

Balance sheet

	Electricity supplies HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
At 31 December 2007			
ASSETS			
Segment assets	2,163,104	–	2,163,104
Interest in associates	–	2,227,366	2,227,366
Unallocated corporate assets			610,824
Consolidated total assets			<u>5,001,294</u>
LIABILITIES			
Segment liabilities	(352,166)	(2,020)	(354,186)
Unallocated corporate liabilities			(903,091)
Consolidated total liabilities			<u>(1,257,277)</u>

	Continuing operation			Discontinued operations	Consolidated HK\$'000
	Electricity supplies HK\$'000	Corporate HK\$'000	Sub-total HK\$'000	Gas fuel business HK\$'000	
OTHER INFORMATION					
Capital additions	52,326	495	52,821	27,646	80,467
Depreciation and amortisation	105,496	561	106,057	18,118	124,175
Release of prepaid lease payments	1,408	–	1,408	915	2,323
Allowance for doubtful debts	–	24,562	24,562	–	24,562

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

5. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

Balance sheet *(continued)*

	Continuing operation	Discontinued operations	
	Electricity supplies HK\$'000	Gas fuel business HK\$'000	Consolidated HK\$'000
At 31 December 2006			
ASSETS			
Segment assets	1,737,387	5,099,221	6,836,608
Interest in associates	–	644,940	644,940
Unallocated corporate assets			1,321,589
Consolidated total assets			<u>8,803,137</u>
LIABILITIES			
Segment liabilities	(205,352)	(524,537)	(729,889)
Unallocated corporate liabilities			(3,270,278)
Consolidated total liabilities			<u>(4,000,167)</u>

	Continuing operation			Discontinued operations	
	Electricity supplies HK\$'000	Corporate HK\$'000	Sub-total HK\$'000	Gas fuel business HK\$'000	Consolidated HK\$'000
OTHER INFORMATION					
Capital additions	45,041	–	45,041	742,010	787,051
Goodwill additions	–	–	–	12,737	12,737
Intangible asset additions	–	–	–	126,750	126,750
Depreciation and amortisation	86,008	460	86,468	108,691	195,159
Release of prepaid lease payments	993	–	993	4,922	5,915
Allowance for doubtful debts	–	–	–	40,000	40,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

5. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Geographical segments

As over 90% of the consolidated turnover, trading results and assets for both years are derived from or located in the People's Republic of China ("PRC"), an analysis of the consolidated turnover, trading results and assets by geographical location is not presented.

6. OTHER INCOME

Other income mainly comprised of:

	Continuing operation		Discontinued operations		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Interest income on:						
– bank deposits	14,728	18,265	1,042	29,988	15,770	48,253
– other receivable	240	–	–	–	240	–
Total interest income	14,968	18,265	1,042	29,988	16,010	48,253
Dividend income						
– listed	372	137	–	52	372	189
– unlisted	–	–	149	11,083	149	11,083
	372	137	149	11,135	521	11,272
Discount on acquisition of interest in subsidiaries/ additional interest in a subsidiary	–	–	–	28,585	–	28,585
Gain on fair value change on investments held for trading	16,108	20,021	–	–	16,108	20,021
Gain on disposal of property, plant and equipment	–	–	–	1,701	–	1,701
Gain on partial disposal of associates	16,008	–	–	–	16,008	–
Compensation from insurance claim	49,842	–	–	–	49,842	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

7. OTHER EXPENSES

Other expenses mainly comprised of:

	Continuing operation		Discontinued operations		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Impairment loss recognised in respect of available-for-sale investments	-	-	-	983	-	983
Loss on disposal of property, plant and equipment	121	-	-	-	121	-
Loss on deemed disposal arising from dilution of interest in associates	6,445	-	-	-	6,445	-
Allowance for amount due from an associate	-	108	-	-	-	108
	6,566	108	6,566	983	13,134	1091

8. FINANCE COSTS

	Continuing operation		Discontinued operations		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Interest on bank and other borrowings wholly repayable within five years	65,976	68,515	1,459	3,454	67,435	71,969
Interest on bank and other borrowings not wholly repayable within five years	-	-	-	4,446	-	4,446
Interest on convertible bonds	-	-	2,453	25,097	2,453	25,097
Interest on guaranteed senior notes	-	-	20,515	121,471	20,515	121,471
	65,976	68,515	24,427	154,468	90,403	222,983
Net interest expense on interest rate swaps	-	-	-	12,874	-	12,874
	65,976	68,515	24,427	167,342	90,403	235,857
Bank charges	-	-	182	1,215	182	1,215
	65,976	68,515	24,609	168,557	90,585	237,072

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

9. PROFIT (LOSS) BEFORE TAXATION

	Continuing operation		Discontinued operations		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Profit (loss) before taxation has been arrived at after charging:						
Amortisation of intangible assets (included under administrative expenses)	–	–	819	4,107	819	4,107
Auditor's remuneration	1,685	1,294	201	6,327	1,886	7,621
Depreciation of property, plant and equipment	106,057	86,468	17,299	104,584	123,356	191,052
Release of prepaid lease payments	1,408	993	915	4,922	2,323	5,915
Minimum lease payments under operating leases in respect of rented premises	14,104	17,838	2,254	10,927	16,358	28,765
Staff costs (including directors' remuneration):						
Retirement benefit scheme contributions	965	854	3,959	17,841	4,924	18,695
Salaries and other benefits	23,703	27,529	24,075	136,571	47,778	164,100
Total staff costs	24,668	28,383	28,034	154,412	52,702	182,795
Allowance for doubtful debts	24,562	–	–	40,000	24,562	40,000
Share of tax of associates (included in share of results of associates)	9,945	–	–	12,597	9,945	12,597

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

10. DIRECTORS' AND EMPLOYEES' REMUNERATION

The emoluments paid or payable to each of the eight (2006: eight) directors were as follows:

	Year ended 31 December 2007								Total 2007 HK\$'000
	Mr. Sun Qiang Chang HK\$'000	Mr. Ou Yaping HK\$'000	Mr. Xiang Ya Bo HK\$'000	Mr. Tang Yui Man Francis HK\$'000	Mr. Chen Wei HK\$'000	Mr. Xin Luo Lin HK\$'000	Mr. Lu Yungang HK\$'000	Mr. Davin A. Mackenzie HK\$'000	
Fees	-	-	-	-	-	250	250	250	750
Other emoluments									
- salaries and other benefits	-	790	2,402	4,050	1,950	-	-	-	9,192
- contributions to retirement benefit schemes	-	14	120	14	2	-	-	-	150
- share-based payments	-	24	61	61	183	18	18	18	383
Total emoluments	-	828	2,583	4,125	2,135	268	268	268	10,475

	Year ended 31 December 2006								Total 2006 HK\$'000
	Mr. Sun Qiang Chang HK\$'000	Mr. Ou Yaping HK\$'000	Mr. Xiang Ya Bo HK\$'000	Mr. Tang Yui Man Francis HK\$'000	Mr. Xu Xinghai HK\$'000	Mr. Xin Luo Lin HK\$'000	Mr. Lu Yungang HK\$'000	Mr. Davin A. Mackenzie HK\$'000	
Fees	-	-	-	-	-	250	250	250	750
Other emoluments									
- salaries and other benefits	-	1,340	1,990	2,900	-	-	-	-	6,230
- contributions to retirement benefit schemes	-	24	100	24	-	-	-	-	148
- share-based payments	2,233	-	-	-	-	-	36	36	2,305
Total emoluments	2,233	1,364	2,090	2,924	-	250	286	286	9,433

The five highest paid individuals of the Group included four directors (2006: four directors) of the Company. Details of their emoluments are included above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

10. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

The emoluments of the remaining highest paid individuals for the year are set out as follows:

	2007 HK\$'000	2006 HK\$'000
Employees		
Salaries and other benefits	650	1,480
Contributions to retirement benefit scheme contributions	–	9
	650	1,489

Their emoluments are within the following band:

	2007 Number of employee	2006 Number of employee
Nil to HK\$1,000,000	1	–
HK\$1,000,001 to HK\$1,500,000	–	1
	1	1

During the year, no emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

11. TAXATION

	Continuing operation		Discontinued operations		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
The tax charge comprises:						
PRC Enterprise Income Tax						
– current year	–	413	462	17,475	462	17,888
– underprovision in prior years	–	393	–	810	–	1,203
	–	806	462	18,285	462	19,091
Deferred tax credit	–	–	–	(1,212)	–	(1,212)
	–	806	462	17,073	462	17,879

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the relevant entities incurred tax losses in both years. The tax rate applicable for all PRC subsidiaries ranges from 15% to 33%.

Pursuant to relevant laws and regulations in the PRC, certain of the Group's subsidiaries operating in the PRC are entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from first profit making year of operations and thereafter, the subsidiaries are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The reduced tax rate for the relief period is ranging from 7.5% to 16.5%.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The enactment of the New Law is not expected to have any significant financial effect on the amounts accrued in the consolidated balance sheet in respect of taxation payable and deferred taxation.

Details of deferred taxation are set out in note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

11. TAXATION (continued)

Taxation for the year can be reconciled to the profit (loss) before taxation per consolidated income statement as follows:

	2007 HK\$'000	2006 HK\$'000
Profit (loss) before taxation		
Continuing operation	97,378	84,187
Discontinued operations	(108,109)	(233,753)
	(10,731)	(149,566)
Tax credit at applicable income tax rate of 15% (2006: 33%) (note)	(1,610)	(49,357)
Tax effect of expenses not deductible for tax purpose	30,462	126,389
Tax effect of income not taxable for tax purpose	(8,119)	(39,010)
Tax effect of share of results of associates	(7,699)	4,509
Tax effect of tax losses not recognised	9,744	18,368
Effect of tax exemption granted to PRC subsidiaries	(17,431)	(17,408)
Effect of different tax rates of subsidiaries operating in different provinces	(4,885)	(20,948)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in PRC Enterprise Income Tax rates	–	(5,440)
Tax effect of utilisation of tax losses previously not recognised	–	(427)
Underprovision of taxation in prior years	–	1,203
Taxation for the year	462	17,879

Note: The tax rate of 15% (2006: 33%) represents PRC Enterprises Income Tax which is applicable to most of the Group's operations in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

12. DISCONTINUED OPERATIONS

On 4 December 2006, Towngas China Company Limited ("Towngas China") (formerly known as "Panva Gas Holdings Limited"), a subsidiary of the Company, 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 operations.

The loss for the period/year from the discontinued operations is analysed as follows:

	1.1.2007 to 28.2.2007 HK\$'000	1.1.2006 to 31.12.2006 HK\$'000
Loss of gas fuel business operation for the period/year	(31,370)	(250,826)
Loss on disposal and deemed disposal of subsidiaries	(77,201)	–
	(108,571)	(250,826)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

12. DISCONTINUED OPERATIONS (continued)

The results of the gas fuel business were as follow:

	<i>Notes</i>	1.1.2007 to 28.2.2007 HK\$'000	1.1.2006 to 31.12.2006 HK\$'000
Turnover	5	421,459	2,642,916
Cost of sales		(370,458)	(2,238,180)
Gross profit		51,001	404,736
Other income	6	1,804	87,373
Distribution and selling expenses		(16,682)	(85,423)
Administrative expenses		(39,334)	(312,193)
Other expenses	7	(31)	(7,704)
Finance costs	8	(24,609)	(168,557)
Changes in fair value of derivative financial instruments		–	(118,861)
Share of results of associates		3,155	(13,664)
Loss on deemed disposal arising from dilution of interest in subsidiaries		(6,212)	(19,460)
Loss before taxation	9	(30,908)	(233,753)
Taxation	11	(462)	(17,073)
Loss for the period/year from discontinued operations		(31,370)	(250,826)
Loss on disposal and deemed disposal of subsidiaries		(77,201)	–
		(108,571)	(250,826)
Attributable to:			
Equity holders of the Company		(99,200)	(163,152)
Minority interests		(9,371)	(87,674)
		(108,571)	(250,826)

During the period, Towngas China had outflow of HK\$23 million (2006: contributed HK\$365 million) to the Group's net operating cash flows, outflow of HK\$17 million (2006: HK\$683 million) in respect of investing activities and contributed HK\$5 million (2006: outflow of HK\$63 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 35.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

13. DIVIDENDS

	2007	2006
	HK\$'000	HK\$'000
Dividend recognised as distribution:		
2005 final of HK1.0 cents per share	–	48,376

No dividend was proposed for the year ended 31 December 2007.

14. (LOSS) EARNINGS PER SHARE

The calculation of the (loss) earnings per share is based on the following data:

Number of shares

	2007	2006
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	4,792,914,050	4,837,595,552
Effect of dilutive share options	10,031,890	17,501,223
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,802,945,940	4,855,096,775

From continuing and discontinued operations

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

	2007	2006
	HK\$'000	HK\$'000
Loss for the purpose of basic loss for the year attributable to equity holders of the Company	(2,425)	(79,621)

No diluted loss per share has been presented for the year on the assumption that the exercise of the share options granted by the Company would decrease the loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

14. (LOSS) EARNINGS PER SHARE *(continued)*

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:

	2007	2006
	HK\$'000	HK\$'000
Loss for the year attributable to equity holders of the Company	(2,425)	(79,621)
Less: Loss for the year from discontinued operations	99,200	163,152
Earnings for the purposes of basic and diluted earnings per share from continuing operation	96,775	83,531

The denominators used are the same as those detailed above.

From discontinued operations

Basic loss per share from discontinued operations is HK2.07 cents per share (2006: HK3.37 cents loss per share) based on the loss for the year from the discontinued operations of HK\$99 million (2006: HK\$163 million) and the denominators detailed above. No diluted loss per share has been presented for the year on the assumption that the exercise of the share options granted by the Company would decrease the loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC	Leasehold improvement	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Construction in progress	Gas pipelines	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST								
At 1 January 2006	198,093	1,807	11,225	1,629,159	27,805	63,869	1,361,677	3,293,635
Currency realignment	11,214	-	677	64,148	1,808	2,395	60,981	141,223
Acquired on acquisition of subsidiaries	98,178	-	3,877	73,356	9,165	1,190	282,994	468,760
Additions	48,418	-	13,646	35,205	30,564	25,881	164,577	318,291
Disposals	(7,180)	(1,159)	(1,854)	(3,875)	(8,346)	-	(18,091)	(40,505)
Transfer	-	-	-	-	-	(56,457)	56,457	-
At 31 December 2006	348,723	648	27,571	1,797,993	60,996	36,878	1,908,595	4,181,404
Currency realignment	15,374	-	674	113,475	1,443	2,693	29,602	163,261
Additions	7,830	-	4,004	48,709	8,575	8,608	496	78,222
Eliminated upon disposal and deemed disposal of subsidiaries	(277,362)	-	(27,376)	(320,876)	(64,344)	(440)	(1,938,693)	(2,629,091)
Disposals	-	-	(27)	(518)	(254)	-	-	(799)
Transfer	-	-	-	26,195	-	(26,195)	-	-
At 31 December 2007	94,565	648	4,846	1,664,978	6,416	21,544	-	1,792,997
DEPRECIATION								
At 1 January 2006	15,347	547	1,402	195,089	4,641	-	32,357	249,383
Currency realignment	1,228	-	350	10,663	838	-	4,176	17,255
Provided for the year	18,637	612	7,023	85,411	12,897	-	66,472	191,052
Eliminated on disposals	(727)	(783)	(655)	(1,111)	(5,231)	-	(85)	(8,592)
At 31 December 2006	34,485	376	8,120	290,052	13,145	-	102,920	449,098
Currency realignment	2,205	-	259	25,039	653	-	2,245	30,401
Provided for the year	8,599	265	1,346	101,942	2,174	-	9,030	123,356
Eliminated upon disposal and deemed disposal of subsidiaries	(22,982)	-	(7,314)	(70,728)	(11,161)	-	(114,195)	(226,380)
Eliminated on disposals	-	-	(25)	(365)	(199)	-	-	(589)
At 31 December 2007	22,307	641	2,386	345,940	4,612	-	-	375,886
CARRYING VALUES								
At 31 December 2007	72,258	7	2,460	1,319,038	1,804	21,544	-	1,417,111
At 31 December 2006	314,238	272	19,451	1,507,941	47,851	36,878	1,805,675	3,732,306

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The above items of property, plant and equipment other than construction in progress are depreciated on a straight line basis at the following rates per annum:

Buildings	3% to 6%
Leasehold improvement	15% to 20%
Furniture, fixtures and equipment	18% to 20%
Plant and machinery	6% to 10%
Motor vehicles	6% to 20%
Gas pipelines	3%

The buildings are held under medium term leases and are situated in the PRC.

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2007	2006
	HK\$'000	HK\$'000
Leasehold land outside Hong Kong with medium-term leases	43,773	195,335
Analysed for reporting purposes:		
Non-current portion	42,309	189,730
Current portion	1,464	5,605
	43,773	195,335

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

17. INTANGIBLE ASSETS

	HK\$'000
COST	
At 1 January 2006	9,392
Currency realignment	5,012
Acquired on acquisition of subsidiaries (<i>note 34</i>)	126,750
	<hr/>
At 31 December 2006	141,154
Currency realignment	2,284
Eliminated upon disposal and deemed disposal of subsidiaries (<i>note 35</i>)	(143,438)
	<hr/>
At 31 December 2007	–
	<hr/>
AMORTISATION	
At 1 January 2006	423
Currency realignment	97
Provided for the year	4,107
	<hr/>
At 31 December 2006	4,627
Currency realignment	148
Provided for the year	819
Eliminated upon disposal and deemed disposal of subsidiaries (<i>note 35</i>)	(5,594)
	<hr/>
At 31 December 2007	–
	<hr/>
CARRYING VALUES	
At 31 December 2007	–
	<hr/> <hr/>
At 31 December 2006	136,527
	<hr/> <hr/>

The intangible assets in 2006 represented the Group's exclusive operating rights for city pipeline network.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

18. GOODWILL

	HK\$'000
COST	
At 1 January 2006	1,933,262
Arising on acquisition of subsidiaries (<i>note 34</i>)	12,737
Eliminated on deemed disposal of interest in subsidiaries	(25,921)
Currency realignment	491
	<hr/>
At 31 December 2006	1,920,569
Eliminated upon disposal and deemed disposal of subsidiaries (<i>note 35</i>)	(1,556,364)
Eliminated on deemed disposal arising from dilution of interest in subsidiaries as a result of the exercise of share options and conversion of convertible bonds by shareholders and bondholders of Towngas China	(41,384)
Currency realignment	164
	<hr/>
At 31 December 2007	322,985
	<hr/>
IMPAIRMENT	
At 1 January 2006, 31 December 2006 and 31 December 2007	(6,405)
	<hr/>
CARRYING VALUES	
At 31 December 2007	316,580
	<hr/> <hr/>
At 31 December 2006	1,914,164
	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

18. GOODWILL (continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	2007	2006
	HK\$'000	HK\$'000
Electricity supplies	316,580	316,580
Gas fuel business	–	1,597,584
Others	6,405	6,405
	322,985	1,920,569
Impairment loss recognised – others	(6,405)	(6,405)
	316,580	1,914,164

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGU of electricity supplies are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the electricity supplies. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next 5 years and extrapolates cash flows for the following 15 years based on an estimated steady growth rate of 7% for electricity supplies, which is based on industry growth forecasts. This rate does not exceed the average long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows is 9%. In 2006, the Group prepared cash flow forecasts derived from the most recent financial budgets approved by management for the next 5 years and extrapolates cash flows for the following 15 years based on an estimated steady growth rate of 3% and 3% – 5% for electricity supplies and gas fuel business respectively. This rate did not exceed the average long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows was 12%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

19. INTEREST IN ASSOCIATES

	2007	2006
	HK\$'000	HK\$'000
Cost of investment in associates		
Listed in Hong Kong	2,092,019	–
Unlisted	–	609,697
Share of post-acquisition reserves	135,347	35,243
	2,227,366	644,940
	2,201,522	–
Fair value of listed investments		

During the year, the Group's shareholding in Towngas China, as associate, was diluted as a result of the exercise of share options and conversion of convertible bonds by the shareholders and bondholders of Towngas China respectively. In addition, the Group also disposed of its certain interest in Towngas China in the market during the year. Accordingly, the Group's interest in Towngas China was decreased from 30.54% upon completion of the transactions as referred to in the note 12 to 27.12% as at 31 December 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

19. INTEREST IN ASSOCIATES (continued)

Details of the Group's principal associates as at 31 December 2007 and 2006 are as follows:

Name of associates	Place of incorporation/ establishment and form of business structure	Principal place of operation	Percentage of equity interest attributable to the Group		Principal activities
			2007	2006	
Towngas China	Cayman Islands – limited liability company	PRC	27.12%	–	Sale and distribution of liquefied petroleum gas ("LP Gas") and natural gas and related services and gas pipeline construction
Changchun Gas Holdings Limited 長春燃氣控股有限公司	PRC – Sino-foreign equity joint venture	PRC	–	48%	Provision and distribution of natural gas, coal gas, LP Gas, metallurgical coke and coke oil
Foshan Panva Gas Co., Ltd. 佛山市燃氣集團有限公司	PRC – Sino-foreign equity joint venture	PRC	–	45%	Provision of LP Gas, natural gas and related services and gas pipeline construction
Shangdong Panva Gas Co., Ltd. 山東百江燃氣有限公司	PRC – Sino-foreign equity joint venture	PRC	–	48%	Provision of LP Gas, natural gas and related services and gas pipeline construction

In 2007, included in the cost of investment of associates was goodwill of HK\$707,929,000 (2006: HK\$89,569,000) arising on acquisitions of associates. Details of movements of goodwill are as follows:

	HK\$'000
COST	
At 1 January 2006 and 31 December 2006	89,569
Eliminated on disposal and deemed disposal of subsidiaries	(89,569)
Transfer upon the change of status from subsidiaries to associates	797,881
Released upon deemed disposal of associates	(8,966)
Released upon partial disposal of associates	(80,986)
At 31 December 2007	707,929

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

19. INTEREST IN ASSOCIATES (continued)

Summarised financial information in respect of the Group's associates is set out below:

	2007 HK\$'000	2006 HK\$'000
Total assets	9,115,192	2,643,201
Total liabilities	(3,506,119)	(1,479,272)
Net assets	5,609,073	1,163,929
Group's share of net assets of associates	1,519,437	555,371
Revenue	2,773,975	1,677,135
Profit (loss) for the year	168,279	(27,377)
Group's share of profit (loss) of associates	51,325	(13,664)

20. AVAILABLE-FOR-SALE INVESTMENTS

	2007 HK\$'000	2006 HK\$'000
Unlisted shares, at cost		
– PRC	–	171,511
– overseas	24	–
Club debentures, at cost	1,486	1,486
	1,510	172,997
Less: Impairment	–	(983)
	1,510	172,014

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

20. AVAILABLE-FOR-SALE INVESTMENTS (continued)

As at 31 December 2007, investments in unlisted equity securities issued by private entity incorporated overseas are measured at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

As at 31 December 2006, investments in unlisted equity securities issued by private entities established in the PRC were measured at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of the Company were of the opinion that their fair values cannot be measured reliably. An impairment loss of HK\$983,000 on certain of its unlisted shares in the PRC was recognised in 2006 by reference to the recoverable amount of the investment.

21. INVENTORIES

	2007	2006
	HK\$'000	HK\$'000
Fuel oil	169,941	135,862
Gas fuel	–	25,005
Consumables	–	71,732
	169,941	232,599

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2007	2006
	HK\$'000	HK\$'000
Trade receivables	210,111	218,769
Other receivables, deposits and prepayments	98,022	479,675
	308,133	698,444

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

The Group allows an average credit period ranging from 0 to 180 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the reporting date:

	2007	2006
	HK\$'000	HK\$'000
0 to 90 days	210,111	152,117
91 to 180 days	–	62,970
181 to 360 days	–	3,682
	210,111	218,769

Included in the other receivables, deposits and prepayments at 31 December 2007 is an amount of HK\$77,976,000 (2006: nil) representing advance to an investee of the Group. The amount is unsecured, interest free and expected to be settled within one year.

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality. In 2006, included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$3,763,000 (2007: nil) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. There are no balances included in other receivables which have been past due.

Ageing of trade receivables which are past due but not impaired

	2007	2006
	HK\$'000	HK\$'000
61 to 90 days	–	81
181 to 360 days	–	3,682
	–	3,763

The Group has concentration of credit risk from the sale of electricity supplies to government department in Shenzhen, PRC, which the management does not expect material credit risk from the balance due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

Movement in the allowance for doubtful debts on trade and other receivables

	2007 HK\$'000	2006 HK\$'000
Balance at beginning of the year	40,000	–
Eliminated upon disposal and deemed disposal of subsidiaries	(40,000)	–
Allowance for doubtful debts	24,562	40,000
	<hr/>	<hr/>
Balance at end of the year	24,562	40,000
	<hr/> <hr/>	<hr/> <hr/>

Included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of HK\$24,562,000 (2006: HK\$40,000,000) which have either been placed under liquidation, in severe financial difficulties or is more than likely not to be able to recover the amount. The Group does not hold any collateral over these balances.

23. AMOUNTS DUE FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY/LOANS FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

Amounts due from minority shareholders of a subsidiary were unsecured, interest free and expected to be settled within one year/repayable on demand from the balance sheet date.

Loans from minority shareholders of a subsidiary were unsecured, interest free and repayable on demand.

The fair values of the above amounts at the balance sheet date approximate to their carrying amounts.

24. INVESTMENTS HELD FOR TRADING

	2007 HK\$'000	2006 HK\$'000
Investments held for trading, at fair value		
Listed shares in Hong Kong	18,979	11,555
Listed shares in elsewhere	3,760	–
Unit funds	27,700	83,399
	<hr/>	<hr/>
	50,439	94,954
	<hr/> <hr/>	<hr/> <hr/>

The fair values of the above held for trading investments relating to listed shares and managed funds are determined based on the quoted market bid prices of underlying securities available on the relevant exchanges and market value provided by the financial institutions respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

25. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

In 2006, pledged bank deposits carry interest at prevailing market rate ranging from 0.72% to 1.15% per annum. The fair values of the pledged bank deposits at 31 December 2006 approximates to their carrying amount.

Bank balances carry interest at prevailing market rate ranging from 0.05% to 5.90% (2006: 1.85% to 5.33%) per annum. The fair values of the bank balances and cash at 31 December 2007 approximate to their carrying amounts.

26. TRADE, NOTES AND OTHER PAYABLES

	2007	2006
	HK\$'000	HK\$'000
Trade payables	259,853	258,019
Other payables and accrued charges	94,333	479,747
	354,186	737,766

The following is an aged analysis of trade payables at balance sheet date:

	2007	2006
	HK\$'000	HK\$'000
Within 90 days	256,055	184,242
Between 91 – 180 days	3,750	33,199
Between 181 – 360 days	–	13,954
Over 360 days	48	26,624
	259,853	258,019

The fair value of the Group's trade, notes and other payables at 31 December 2007 approximates to their carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

27. BORROWINGS

Borrowings comprise the following:

	2007 HK\$'000	2006 HK\$'000
Bank loans – secured	530,921	507,042
Bank loans – unsecured	363,248	520,050
Other loans – unsecured	–	119,823
Convertible bonds (<i>note a</i>)	–	349,506
Guaranteed senior notes (<i>note b</i>)	–	1,606,720
	894,169	3,103,141

The maturity of the above borrowings is as follows:

On demand or within one year	586,760	602,042
More than one year but not more than two years	188,339	567,795
More than two years but not more than three years	109,202	191,573
More than three years but more than four years	9,868	107,908
More than four years but not more than five years	–	17,281
More than five years	–	1,616,542
	894,169	3,103,141
Less: Amount due within one year shown under current liabilities	(586,760)	(602,042)
Amount due after one year	307,409	2,501,099

Notes:

- (a) The convertible bonds of US\$50,000,000 were issued on 23 April 2003 by Towngas China. The bonds are convertible into shares of Towngas China on or after 7 June 2003 and up to 9 April 2008. The convertible bonds were listed on the Luxembourg Stock Exchange. The conversion price at which each share shall be issued upon conversion was HK\$3.8043 per share (adjusted to account for the effect of the issue of additional new shares), subject to adjustment for subdivision on consolidation of shares, bonus issues, rights issues and other dilutive events. The outstanding unconverted principal amount of the bonds US\$43,880,000 as at 31 December 2006 will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is payable per annum. The effective interest rate of the convertible bonds is 6.48%. At 31 December 2006, the market value of the convertible bonds amounted to US\$48,707,000 (equivalent to approximately of HK\$379,913,000). During the year ended 31 December 2006, US\$3,845,000 (equivalent to approximately of HK\$29,991,000) of the convertible bonds were converted into ordinary shares of Towngas China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

27. BORROWINGS (continued)

Notes (continued):

- (a) The convertible bonds which were issued by Towngas China have been excluded from the Group's consolidated balance sheet upon Towngas China became an associate of the Company with effect from 1 March 2007.
- (b) The Group issued US\$200,000,000 8.25% guaranteed senior notes due 2011 (the "Guaranteed Senior Notes") on 23 September 2004. The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. At any time prior to 23 September 2007, Towngas China may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the net cash proceeds of one or more sales of Towngas China's shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date. The effective interest rate of Guaranteed Senior Notes is 8.69%. At 31 December 2006, the market value of the Guaranteed Senior Notes amounted to US\$216,166,000 (equivalent to approximately of HK\$1,686,095,000).

The Guaranteed Senior Notes which were issued by Towngas China have been excluded from the Group's consolidated balance sheet upon Towngas China became an associate of the Company with effect from 1 March 2007.

- (c) The bank and other loans mainly comprise:

	Maturity date	Effective interest rate	Carrying amount	
			2007 HK\$'000	2006 HK\$'000
Floating rate bank and other borrowings:				
Unsecured RMB bank loan of RMB240,000,000 (2006: RMB520,000,000) at basic borrowing rate announced by People's Bank of China	4 June 2008 and 27 June 2008	6.56% to 6.57%	256,410	545,796
Other secured bank loans and other loans		6.43% to 7.83%	530,921	445,296
Fixed rate other borrowings:				
Unsecured RMB bank loan of RMB100,000,000	18 October 2008	7.29%	106,838	–
Unsecured RMB other loan of RMB103,820,000	Partial repayment matured and instalment repayment for two years	2.55% to 2.8%	–	94,077
Other secured bank loans and other loans		2.55% to 8.31%	–	61,746
Total bank loans and other loans			894,169	1,146,915

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

27. BORROWINGS (continued)

Notes (continued):

- (c) The bank and other loans carry fixed interest, 6 month London Interbank Offered Rate ("LIBOR") or 5-year PRC bank interest.

The fair values of the Group's bank and other borrowings approximate to their carrying amounts calculated by discounting the future cash flows at the prevailing market borrowing rate for similar borrowings at the balance sheet date.

At 31 December 2007, property, plant and equipment with an aggregate carrying amount of HK\$761,257,000 (2006: HK\$750,579,000) was pledged to banks to secure general banking facilities granted to the Group.

At 31 December 2006, bank deposits of HK\$20,038,000 was pledged to banks to secure general banking facilities granted to the Group.

28. DEFERRED TAXATION

The following is the major deferred tax liability recognised and movements thereon during the year.

	Intangible assets	
	2007	2006
	HK\$'000	HK\$'000
At beginning of the year	43,140	–
Acquired on acquisition of subsidiaries during the year (note 34)	–	42,801
Currency realignment	421	1,551
Credited to the consolidated income statement during the year	–	(1,212)
Eliminated upon disposal and deemed disposal of subsidiaries (note 35)	(43,561)	–
At end of the year	–	43,140

Deferred tax asset has not been recognised in the consolidated financial statements in respect of the estimated tax losses of approximately HK\$102,928,000 (2006: HK\$147,699,000) available to offset the future assessable profit due to the unpredictability of future profits streams. Included in unrecognised tax losses are losses of HK\$102,928,000 (2006: HK\$37,966,000) that may be carried forward indefinitely. The remaining unrecognised tax losses will be expired within five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

29. SHARE CAPITAL

	Number of shares		Share capital	
	2007	2006	2007 HK\$'000	2006 HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised:				
At 1 January 2006, 31 December 2006 and 31 December 2007	7,500,000,000	7,500,000,000	75,000	75,000
Issued and fully paid:				
At beginning of the year	4,829,853,445	4,837,583,112	48,299	48,376
Exercise of share options (note a)	4,233,331	1,333,333	42	14
Repurchase of shares (note b)	(40,983,000)	(9,063,000)	(410)	(91)
At end of year	4,793,103,776	4,829,853,445	47,931	48,299

Notes:

- (a) During the year ended 31 December 2007, the Company allotted and issued a total of 4,233,331 shares of HK\$0.01 each for cash at an exercise price of HK\$0.44 per share as a result of the exercise of share options.
- (b) During the year ended 31 December 2007, 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. The nominal value of the cancelled shares of approximately HK\$410,000 was charged in the share capital and the premium paid on repurchase of approximately HK\$26,440,000 was charged against share premium in accordance with the Bermuda Companies Act 1981.

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

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 year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

30. SHARE OPTION SCHEMES

The Company has a share option scheme (the "2002 Scheme") which will remain in force for a period of ten years. The Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

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

The following tables disclose details of the Company's share options held by employees (including directors) and movements in such holdings during the year ended 31 December 2007 and 2006:

Option scheme	Outstanding at 1.1.2007	Number of the share options			Outstanding at 31.12.2007	Vested at the end of the year
		Granted during the year	Exercised during the year	Forfeited during the year		
2002 Scheme	<u>86,645,339</u>	<u>104,000,000</u>	<u>(4,233,331)</u>	<u>(5,300,000)</u>	<u>181,112,008</u>	<u>77,112,008</u>
Weighted average exercise price	<u>HK\$0.51</u>	<u>HK\$0.44</u>	<u>HK\$0.44</u>	<u>HK\$0.45</u>	<u>HK\$0.48</u>	<u>HK\$0.52</u>

Option scheme	Outstanding at 1.1.2006	Number of the share options			Outstanding at 31.12.2006	Vested at the end of the year
		Granted during the year	Exercised during the year	Forfeited during the year		
2002 Scheme	<u>90,978,672</u>	<u>6,000,000</u>	<u>(1,333,333)</u>	<u>(9,000,000)</u>	<u>86,645,339</u>	<u>83,645,339</u>
Weighted average exercise price	<u>HK\$0.51</u>	<u>HK\$0.64</u>	<u>HK\$0.46</u>	<u>HK\$0.57</u>	<u>HK\$0.51</u>	<u>HK\$0.51</u>

The weighted average price of the Company's shares at the date of exercise of 4,233,331 options on 9 January 2007, 13 February 2007 and 30 July 2007 was HK\$0.62.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

30. SHARE OPTION SCHEMES (continued)

The weighted average price of the Company's shares at the date of exercise of 1,333,333 options on 14 December 2006 was HK\$0.56.

Had all the outstanding vested share options been fully exercised on 31 December 2007, the Company would have received cash proceeds of HK\$39,917,000 (2006: HK\$42,791,000).

Details of specific categories of options are as follows:

Option scheme	Date of grant	Vesting proportion	Exercisable period	Exercise price HK\$
2002 Scheme	9.6.2004	64%	9.6.2004 – 8.6.2014	0.44
	9.6.2004	14%	9.6.2005 – 8.6.2014	0.44
	9.6.2004	11%	9.6.2006 – 8.6.2014	0.44
	9.6.2004	11%	9.12.2006 – 8.6.2014	0.44
	20.10.2004	100%	20.10.2005 – 19.10.2015	0.50
	8.12.2005	100%	8.12.2005 – 7.12.2015	0.83
	13.11.2007	100%	1.1.2010 – 12.11.2017	0.45
	13.11.2007	100%	1.1.2011 – 12.11.2017	0.45
	13.11.2007	90%*	1.1.2010 – 12.11.2017	0.45
	13.11.2007	90%*	1.1.2011 – 12.11.2017	0.45

* The management considers that 90% of the share options will be exercised by the options holders.

During the year, options were granted on 13 November 2007. The estimated fair value of the options granted on the date was HK\$0.16. In 2006, options were granted on 30 June 2006 and fully forfeited during 2006. The estimated fair value of the options granted on that date was HK\$0.47.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

30. SHARE OPTION SCHEMES (continued)

These fair values were calculated using The Black-Scholes pricing model. The inputs into the model were as follows:

	13 November 2007	30 June 2006
Weighted average share price	HK\$0.39	HK\$0.47
Weighted average exercise price	HK\$0.45	HK\$0.46
Expected volatility	51%	41%
Expected life	3.33 – 4.08 years	4.5 – 5 years
Risk free rate	3.92%	4.43%
Expected dividend yield	2.60%	2.13%

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over one year immediate preceding the grant date.

The vesting period of share options is from the date of grant until the commencement of the exercise period.

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.

31. RESERVES

General reserves represent the Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in accordance with the relevant laws and regulations of the PRC. They are not available for distribution.

32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which mainly includes the bank loans disclosed in note 27 (net of cash and cash equivalents) and equity attributable to equity holders of the Company, comprising issued share capital and reserves including retained earnings.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. The Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2007	2006
	HK\$'000	HK\$'000
Financial assets		
FVTPL		
Held for trading	50,439	94,954
Loans and receivables (including cash and cash equivalents)	754,989	1,647,256
Available-for-sale financial assets	1,510	172,014
Financial liabilities		
Amortised cost	1,203,815	3,464,027

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, investments held for trading, bank balances and cash, trade, notes and other payables and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The risks associated and the management policies remain unchanged from prior year.

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The management considers the Group does not expose to significant foreign currency risk as majority of its transactions are denominated in RMB and there were only insignificant balances of financial assets and liabilities denominated in foreign currency at the consolidated balance sheet. The 5% increase and decrease in RMB against the relevant foreign currencies is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The management determined that there is insignificant effect to the profit or loss and other equity of the Group. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings and cash flow interest rate risk in relation to variable-rate bank borrowings (see note 27) and variable-rate bank deposits. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of 6 month LIBOR or 5-year PRC bank interest arising from the Group's USD and RMB borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the balance sheet date. For variable-rate bank borrowings and bank deposits, the analysis is prepared assuming the amount of liability and bank deposits outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2007 would increase/decrease by approximately HK\$1,604,000 (2006: increase/decrease by approximately HK\$43,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the decrease in variable rate bank deposits.

Other price risk

The Group is exposed to equity price risk through its investments in equity securities and unit funds. The management manages this exposure by maintaining a portfolio of investments with different risks. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise. The Group's other price risk is mainly concentrated on the fluctuation of market price of equity securities listed in Hong Kong and PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Other price risk (continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date from investments held for trading.

If the prices of the respective equity instruments had been 10% higher/lower, loss for the year ended 31 December 2007 decrease/increase by HK\$5,044,000 (2006: HK\$9,495,000) as a result of the changes in fair value of investments held for trading.

The Group's sensitivity to investments held for trading has decreased during the year mainly due to the growth of market price of equity securities listed in Hong Kong and PRC and unit funds.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent other price risk as the year end exposure does not reflect the exposure during the year. The Group has partial disposed of the investments held for trading during the year which results in a reduction in the balance at year end.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties fail to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The Group has concentration of credit risk from the sale of electricity supplies to government department in Shenzhen, PRC, which the management does not expect material credit risk from the balance due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants. The Group relies on bank and other borrowing as a significant source of liquidity.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month HK\$'000	1 – 3 months HK\$'000	3 months to 1 year HK\$'000	1 – 5 years HK\$'000	5 + years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2007 HK\$'000
2007								
Non-derivative financial liabilities								
Trade payables	-	53,690	107,602	98,560	-	-	259,852	259,853
Other payables	-	-	1,359	48,434	-	-	49,793	49,793
Bank loans								
- variable rate	7.01	49,001	31,971	452,932	337,471	-	871,375	787,331
- fixed rate	7.29	-	-	110,166	-	-	110,166	106,838
		<u>102,691</u>	<u>140,932</u>	<u>710,092</u>	<u>337,471</u>	<u>-</u>	<u>1,291,186</u>	<u>1,203,815</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables (continued)

	Weighted average effective interest rate %	Less than 1 month HK\$'000	1 – 3 months HK\$'000	3 months to 1 year HK\$'000	1 – 5 years HK\$'000	5 + years HK\$'000	Total	Carrying
							undiscounted cash flows HK\$'000	amount at 31.12.2006 HK\$'000
2006								
Non-derivative financial liabilities								
Trade payables	-	123,425	75,565	59,029	-	-	258,019	258,019
Other payables	-	23,809	3,489	50,217	-	-	77,515	77,515
Loans from minority shareholders of a subsidiary	-	25,352	-	-	-	-	25,352	25,352
Variable rate bank loans	6.51	59,163	36,152	489,611	568,527	-	1,153,453	1,027,092
Other loans	2.52	46,438	-	1,852	32,916	54,019	135,225	119,823
Convertible bonds	2.00	-	-	3,423	376,898	-	380,321	349,506
Guaranteed senior notes	8.25	-	63,938	63,938	2,061,500	-	2,189,376	1,606,720
		<u>278,187</u>	<u>179,144</u>	<u>668,070</u>	<u>3,039,841</u>	<u>54,019</u>	<u>4,219,261</u>	<u>3,464,027</u>

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

34. ACQUISITION OF SUBSIDIARIES

On 1 January 2006, the Group acquired 61.67%, 90% and 80% equity interest in Qiqihar Panva Gas Co., Ltd. ("Qiqihar Panva"), Chaoyang Panva Gas Co. Ltd. ("Chaoyang Panva") and Tieling Panva Gas Co., Ltd. ("Tieling Panva"), respectively, at an aggregate consideration of approximately HK\$183 million.

	Acquirees' carrying amount before acquisition	Fair value adjustments	Fair value
	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:			
Property, plant and equipment	280,371	–	280,371
Prepaid lease payments	30,682	–	30,682
Intangible assets	–	65,154	65,154
Inventories	18,711	–	18,711
Trade receivables	9,381	–	9,381
Other receivables, deposits and prepayments	6,153	–	6,153
Amounts due from minority shareholders	7,650	–	7,650
Bank balances and cash	76,252	–	76,252
Trade payables	(32,461)	–	(32,461)
Other payables and accrued charges	(86,442)	–	(86,442)
Amounts due to shareholders	(1,831)	–	(1,831)
Borrowings	(107,510)	–	(107,510)
Deferred taxation	(973)	(21,501)	(22,474)
	<u>199,983</u>	<u>43,653</u>	<u>243,636</u>
Minority interests			(56,708)
Goodwill			11,333
Discount on acquisition			(15,678)
			<u>182,583</u>
Satisfied by:			
Cash consideration			163,923
Transfer from available-for-sale investments			18,660
			<u>182,583</u>
Net cash outflow arising on acquisition:			
Cash consideration			163,923
Bank balances and cash acquired			(76,252)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u>87,671</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

34. ACQUISITION OF SUBSIDIARIES (continued)

On 1 March 2006, the Group acquired 100% equity interest in 深圳北科蘭光能源系統技術有限責任公司 (“Beike Lan Guang Group”) at a consideration of approximately HK\$86 million.

	Acquiree's carrying amount before acquisition	Fair value adjustments	Fair value
	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:			
Property, plant and equipment	105,906	–	105,906
Prepaid lease payments	8,342	–	8,342
Intangible assets	–	37,170	37,170
Inventories	3,510	–	3,510
Trade receivables	353	–	353
Other receivables, deposits and prepayments	60,602	–	60,602
Bank balances and cash	821	–	821
Trade payables	(3,443)	–	(3,443)
Other payables and accrued charges	(102,250)	–	(102,250)
Borrowings	(3,604)	–	(3,604)
Deferred taxation	–	(12,266)	(12,266)
	<u>70,237</u>	<u>24,904</u>	95,141
Minority interests			(5,649)
Discount on acquisition			(3,742)
			<u>85,750</u>
Satisfied by:			
Cash consideration			<u>85,750</u>
Net cash outflow arising on acquisition:			
Cash consideration			85,750
Bank balances and cash acquired			(821)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u>84,929</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

34. ACQUISITION OF SUBSIDIARIES (continued)

On 1 July 2006, the Group acquired 90% equity interest in 阜新百江燃氣有限公司 Fuxin Panva Co., Ltd. ("Fuxin Panva") at a consideration of HK\$71 million.

	Acquirees' carrying amount before acquisition	Fair value adjustments	Fair value
	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:			
Property, plant and equipment	66,315	–	66,315
Prepaid lease payments	12,792	–	12,792
Intangible assets	–	24,426	24,426
Inventories	2,212	–	2,212
Trade receivables	586	–	586
Other receivables, deposits and prepayments	663	–	663
Amounts due from minority shareholders	10,466	–	10,466
Bank balances and cash	161	–	161
Trade payables	(7,318)	–	(7,318)
Other payables and accrued charges	(13,293)	–	(13,293)
Taxation	(43)	–	(43)
Borrowings	(4,463)	–	(4,463)
Deferred taxation	–	(8,061)	(8,061)
	<u>68,078</u>	<u>16,365</u>	<u>84,443</u>
Minority interests			(8,444)
Discount on acquisition			(4,665)
			<u>71,334</u>
Satisfied by:			
Cash consideration			51,330
Other payables			20,004
			<u>71,334</u>
Net cash outflow arising on acquisition:			
Cash consideration			51,330
Bank balances and cash acquired			(161)
			<u>51,169</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u>51,169</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

34. ACQUISITION OF SUBSIDIARIES (continued)

On 1 October 2006, the Group acquired 50% equity interest in 杭州百江液化氣有限公司 Hangzhou Panva LPG Co., Ltd. ("Hangzhou Panva") at a consideration of HK\$25 million. The Group controls more than half of its board of directors of Hangzhou Panva and accordingly Hangzhou Panva was regarded as a subsidiary.

	Acquirees' carrying amount before acquisition	Fair value adjustments	Fair value
	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:			
Property, plant and equipment	16,168	–	16,168
Inventories	5,551	–	5,551
Trade receivables	5,925	–	5,925
Other receivables, deposits and prepayments	18,330	–	18,330
Bank balances and cash	7,059	–	7,059
Trade payables	(669)	–	(669)
Other payables and accrued charges	(5,911)	–	(5,911)
	<u>46,453</u>	<u>–</u>	<u>46,453</u>
Minority interests			(23,226)
Goodwill			<u>1,404</u>
			<u>24,631</u>
Satisfied by:			
Cash consideration			<u>24,631</u>
Net cash outflow arising on acquisition:			
Cash consideration			24,631
Bank balances and cash acquired			<u>(7,059)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			<u>17,572</u>

These transactions had been accounted for by the purchase method of accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

34. ACQUISITION OF SUBSIDIARIES *(continued)*

The discount on acquisitions of approximately HK\$24 million was attributable to the acquisitions of 61.67% equity interest in Qiqihar Panva, 100% equity interest of Beike Lan Guang Group and 90% equity interest in Fuxin Panva. The discount on acquisitions arising from acquisition of subsidiaries was attributable to the ability of the Group in negotiating the agreed terms of transactions with the vendors.

The goodwill on acquisitions of Chaoyang Panva, Tieling Panva and Hangzhou Panva represented value obtainable from synergies with the Group, expertise the Group brings to the proposition and access to respective markets that the acquisitions provide to the Group.

The subsidiaries acquired in 2006 contributed HK\$314 million to the Group's turnover and a profit of HK\$29 million to the Group's loss for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2006, total group turnover for the year would have been approximately HK\$3,808 million and loss for the year would have been approximately HK\$100 million. The pro forma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

The fair value of the intangible assets acquired, which relates to the exclusive operating rights for city pipeline network, had been determined by reference to professional valuations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

35. 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 12. 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)
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)
	2,348,668
Initial carrying amount of interest in associates	(2,145,403)
Loss on disposal and deemed disposal of subsidiaries	(77,201)
Consideration received under the transactions	126,064
Satisfied by:	
Cash	126,064
Net cash outflow arising on disposal:	
Cash consideration	126,064
Bank balances and cash disposed of	(565,209)
Net outflow of cash and cash equivalents in respect of disposal of subsidiaries	(439,145)

The impact of Towngas China on the Group's results and cash flows in the current and prior periods is disclosed in note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

36. CONTINGENT LIABILITIES

In 2005, the Company disposed of its 41% equity interest in Xin Hua to a third party ("the Buyer"). A portion of the consideration in respect of such disposal of approximately HK\$24,459,000 was paid into the accounts of an escrow agent (the "Escrow Agent") and shall be released to the Company on 31 March 2007, unless the Escrow Agent shall before such date receive a certificate from the Buyer of its objection to release such amount and request such amount to be released back to the Buyer.

The Company and the Escrow Agent have received such certificate dated 7 March 2007 from the Buyer and a claim against the sellers (including the Company) of US\$12,226,000. Under the equity transfer agreement, the maximum liability of the Company shall not exceed 37.3% of the relevant damage or its portion of escrow money of US\$3,196,000 (equivalent to approximately HK\$24,459,000), whichever is lower.

The Company has sent to the Escrow Agent a certificate objecting the transfer of the escrow money to the Buyer, and has sent to the Buyer a notice that the Company is disputing the Buyer's claim. The Company is in the process of gathering further details of the Buyer's claim. During the year ended 31 December 2007, an allowance of US\$3,196,000 (equivalent to approximately HK\$24,459,000) is made in respect of the full amount receivable included in the consolidated financial statements as at 31 December 2007.

37. OPERATING LEASE ARRANGEMENT

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

	2007	2006
	HK\$'000	HK\$'000
Within one year	480	7,789
In the second to fifth year inclusive	1,922	18,479
Over five years	1,441	36,411
	3,843	62,679

Leases are negotiated for terms up to 10 years (2006: 20 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

38. CAPITAL COMMITMENTS

	2007	2006
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	5,562	44,529

39. RETIREMENT BENEFIT SCHEMES

In December 2000, the Group enrolled all non-PRC employees in a Mandatory Provident Fund ("MPF") Scheme. The assets of the MPF Scheme are held separately from those of the Group under the control of trustees. The retirement benefit cost for the MPF charged to the consolidated income statement represents contributions paid and payable to the fund by the Group at rates specified in the rules of the MPF Scheme. During the year ended 31 December 2007, the total expenses recognised in the consolidated income statement are HK\$315,000 (2006: HK\$229,000).

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The Group is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. During the year ended 31 December 2007, the total expense recognised in the consolidated income statement are HK\$8,566,000 (2006: HK\$18,466,000).

40. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group paid office expenses of HK\$1,390,000 (2006: HK\$1,924,000) to Sinolink Worldwide Holdings Limited, a shareholder of the Group. The office expense is determined with reference to actual costs incurred.
- (b) Details of balances with related parties and other transactions with related parties are also set out in other notes to the consolidated financial statements.
- (c) The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2007 and 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company				Principal activities
			2007		2006		
			Directly %	Indirectly %	Directly %	Indirectly %	
Electricity supplies division							
Ace Energy Holdings Limited	BVI – Limited liability company	US\$1	100	–	100	–	Investment holding
Beijing Zhonglian Far East Engineering & Project Management Consulting Services Co., Ltd. 北京中聯遠東工程管理諮詢有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	–	70	–	70	Management services and technical consultancy
Enerchina Investments Limited	BVI – Limited liability company	US\$1	100	–	100	–	Investment holding
Enerchina Oil and Petrochemical Company Limited	BVI – Limited liability company	US\$1	100	–	100	–	Procurement of fuel oil
Enerchina Resources Limited	Hong Kong – Limited liability company	HK\$2	100	–	100	–	Provision of management services
Goodunited Holdings Limited	BVI – Limited liability company	US\$1	–	100	–	100	Investment holding
Hanka Limited	Hong Kong – Limited liability company	HK\$2	50	50	50	50	Holding of club membership
Kenson Investment Limited	BVI – Limited liability company	US\$1	100	–	100	–	Investment holding
Moreluck Enterprises Limited	BVI – Limited liability company	US\$1	100	–	–	–	Investment holding
Rado International Limited	BVI – Limited liability company	US\$1	100	–	100	–	Investment holding
Roxy Link Limited	BVI – Limited liability company	US\$1	–	100	–	100	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company				Principal activities
			2007		2006		
			Directly %	Indirectly %	Directly %	Indirectly %	
Electricity supplies division (continued)							
Shenzhen Fuhuade Electric Power Co., Ltd. 深圳福華德電力有限公司	PRC – Sino-foreign equity joint venture	RMB224,500,000	–	100	–	100	Electricity supplies
Sinolink Electric Power Company Limited	Hong Kong – Limited liability company	HK\$2 ordinary shares and HK\$100,000 non-voting deferred shares	–	100	–	100	Investment holding
Sinolink Industrial Limited	BVI – Limited liability company	US\$50,000	100	–	100	–	Investment holding
Supreme All Investments Limited	BVI – Limited liability company	US\$1	100	–	100	–	Investment holding
Gas fuel business division							
Benxi Panva Gas Co., Ltd. * 本溪百江燃氣有限公司	PRC – Limited liability company	RMB97,824,900	–	–	–	47.64	Provision of natural gas and related services and gas pipeline construction
Cangxi Panva Gas Co., Ltd. * 蒼溪百江燃氣有限公司	PRC – Limited liability company	RMB8,000,000	–	–	–	59.56	Provision of natural gas and related services and gas pipeline construction
Changsha Pan River Enterprises Co., Ltd. * 長沙百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	–	–	–	35.73	Wholesaling and retailing of LPG
Chaoyang Panva Gas Co., Ltd. * 朝陽百江燃氣有限公司	PRC – Limited liability company	RMB89,248,000	–	–	–	53.60	Provision of natural gas and related services and gas pipeline construction

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For the year ended 31 December 2007

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company				Principal activities
			2007		2006		
			Directly %	Indirectly %	Directly %	Indirectly %	
Gas fuel business division (continued)							
Chenzhou Pan River Gas Industry Co., Ltd. * 郴州百江燃氣實業有限公司	PRC – Sino-foreign equity joint venture	RMB9,000,000	–	–	–	35.73	Wholesaling and retailing of LPG
China Overlink Holdings Co., Limited *	BVI – Limited liability company	US\$1	–	–	–	59.56	Investment holding
China Pan River Group Ltd. *	BVI – Limited liability company	US\$12,821	–	–	–	59.56	Investment holding
Dayi Panva Gas Co., Ltd. * 大邑百江燃氣有限公司	PRC – Limited liability company	RMB3,300,000	–	–	–	59.56	Provision of natural gas and related services and gas pipeline construction
Fuxin Panva Gas Co., Ltd. * 阜新百江燃氣有限公司	PRC – Limited liability company	RMB77,200,000	–	–	–	53.60	Provision of natural gas and related services and gas pipeline construction
Hangzhou Panva LPG Co., Ltd. * 杭州百江液化氣有限公司	PRC – Limited liability company	RMB50,000,000	–	–	–	29.78	Wholesale and retailing of LPG
Jinan Panva Gas Co., Ltd. * 濟南百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB100,000,000	–	–	–	30.37	Provision of natural gas and related services and gas pipeline construction
Jinan Panva LPG Co., Ltd. * 濟南百江液化氣有限公司	PRC – Limited liability company	RMB20,000,000	–	–	–	41.69	Provision of natural gas and related services and gas pipeline construction
Lezhi Panva Gas Co., Ltd. * 樂至百江燃氣有限公司	PRC – Limited liability company	RMB6,960,000	–	–	–	59.56	Provision of natural gas and related services and gas pipeline construction

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company				Principal activities
			2007		2006		
			Directly %	Indirectly %	Directly %	Indirectly %	
Gas fuel business division (continued)							
Nanjing Panva LPG Company Ltd. * 南京百江液化氣有限公司	PRC – Sino-foreign equity joint venture	US\$6,000,000	-	-	-	32.76	Wholesaling and retailing of LPG
Nanjing Panva Pipeline Gas Co., Ltd. * 南京百江管道燃氣有限公司	PRC – Sino-foreign equity joint venture	US\$1,010,000	-	-	-	59.56	Provision of LPG and related services and gas pipeline construction
Pan River Enterprises (Changde) Co., Ltd. * 常德百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB6,000,000	-	-	-	50.62	Wholesaling and retailing of LPG
Pan River Enterprises (Hengyang) Co., Ltd. * 衡陽百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB6,000,000	-	-	-	50.03	Wholesaling and retailing of LPG
Pan River Enterprises (Wuhu) Co., Ltd. * 蕪湖百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB32,000,000	-	-	-	32.76	Wholesaling and retailing of LPG
Pan River Enterprises (Yongzhou) Co., Ltd. * 永州百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB5,000,000	-	-	-	35.73	Wholesaling and retailing of LPG
Pan River Gas (China Southwest) Co., Ltd. ("Southwest Panva") * 百江西南燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB57,500,000	-	-	-	29.84	Wholesaling and retailing of LPG
Pan River Gas (Zunyi) Co., Ltd. * 遵義百江燃氣有限公司	PRC – Limited liability company	RMB4,200,000	-	-	-	29.84	Wholesaling and retailing of LPG
Panriver Investments Company Limited * 百江投資有限公司	PRC – Limited liability company	US\$200,000,000	-	-	-	59.56	Investment holding
Panva (Chizhou) Gas Co., Ltd. * 池州百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	-	-	-	35.73	Provision of LPG and related services and gas pipeline construction

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For the year ended 31 December 2007

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company				Principal activities
			2007		2006		
			Directly %	Indirectly %	Directly %	Indirectly %	
Gas fuel business division (continued)							
Panva Gas (Yunnan) Co., Ltd. * 雲南百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB58,840,000	-	-	-	16.99 (note a)	Wholesaling and retailing of LPG
Towngas China 港華燃氣 (formerly known as Panva Gas Holdings Limited 百江燃氣控股有限公司)	Cayman Islands	HK\$95,830,334	-	-	-	59.56	Investment holding
Panva LPG Investment Holdings Limited * 百江液化氣投資控股有限公司	BVI – limited liability company	US\$10,000,000	-	-	-	59.56	Investment holding
Pengshan Panva Gas Co., Ltd. * 彭山百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB9,000,000	-	-	-	41.69	Provision of natural gas and related services and gas pipeline construction
Pengxi Panva Gas Co., Ltd. * 蓬溪百江燃氣有限公司	PRC – Limited liability company	RMB3,590,000	-	-	-	53.60	Provision of natural gas and related services and gas pipeline construction
Pingchang Panva Gas Co., Ltd. * 平昌百江燃氣有限公司	PRC – Limited liability company	RMB4,900,000	-	-	-	53.60	Provision of natural gas and related services and gas pipeline construction
Qiqihar Panva Gas Co., Ltd. * 齊齊哈爾百江燃氣有限公司	PRC – Limited liability company	RMB80,000,000	-	-	-	36.73	Provision of natural gas and related services and gas pipeline construction
Qingyuan Panva Gas Co., Ltd. * 清遠百江燃氣有限公司	PRC – Limited liability company	RMB10,000,000	-	-	-	47.65	Provision of natural gas and related services and gas pipeline construction

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For the year ended 31 December 2007

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company				Principal activities
			2007		2006		
			Directly %	Indirectly %	Directly %	Indirectly %	
Gas fuel business division (continued)							
Shaoguan Panva Gas Co., Ltd. * 韶關百江燃氣有限公司	PRC – Limited liability company	RMB20,000,000	-	-	-	59.56	Provision of natural gas and related services and gas pipeline construction
Sichuan Ziyang Hengyuan Compressed Natural Gas Co., Ltd. * 四川省資陽恆源壓縮 天然氣有限公司	PRC – Limited liability company	RMB800,000	-	-	-	39.66	Provision of compressed natural gas, petroleum and petroleum products to automobiles
Singkong Investments Limited * 盛港投資有限公司	Hong Kong – Limited liability company	HK\$10,000	-	-	-	59.56	Investment holding
Sinolink LPG Investment Limited *	BVI – Limited liability company	US\$1	-	-	-	59.56	Investment holding
Sinolink Power Investment Limited *	BVI – Limited liability company	US\$1	-	-	-	59.56	Investment holding
Tieling Panva Gas Co., Ltd. * 鐵嶺百江燃氣有限公司	PRC – Limited liability company	RMB49,210,000	-	-	-	47.65	Provision of natural gas and related services and gas pipeline construction
Wei yuan Panva Gas Co., Ltd. * 威遠百江燃氣有限公司	PRC – Limited liability company	RMB5,000,000	-	-	-	59.26	Provision of natural gas and related services and gas pipeline construction
Xiang Tan Pan River Energy Industry Co., Ltd. * 湘潭百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	-	-	-	35.73	Wholesaling and retailing of LPG
Yangzhou YPC & Panva Gas Co., Ltd. * 揚州揚子石化百江燃氣有限公司	PRC – Limited liability company	RMB10,000,000	-	-	-	16.38 (note b)	Wholesaling and retailing of LPG

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For the year ended 31 December 2007

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company				Principal activities
			2007		2006		
			Directly %	Indirectly %	Directly %	Indirectly %	
Gas fuel business division (continued)							
Yiyang Pan River Enterprises Co., Ltd. * 益陽百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB5,000,000	-	-	-	35.73	Wholesaling and retailing of LPG
YPC & Panva Energy Co., Ltd. * ("Yangzi Panva") 揚子石化百江能源有限公司	PRC – Sino-foreign equity joint venture	US\$7,230,000	-	-	-	29.78	Wholesaling and retailing of LPG
Yuechi Panva Gas Co., Ltd. * 岳池百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB8,000,000	-	-	-	53.60	Provision of natural gas and related services and gas pipeline construction
Zhongjiang Panva Gas Co., Ltd. * 中江百江燃氣有限公司	PRC – Limited liability company	RMB8,000,000	-	-	-	59.56	Provision of natural gas and related services and gas pipeline construction
Zhongjian Pingan Petroleum and Gas Limited Liability Company * 中江縣平安氣油有限責任公司	PRC – Limited liability company	RMB3,000,000	-	-	-	32.76	Provision of compressed natural gas to automobiles
Ziyang Panva Gas Co., Ltd. * 資陽百江燃氣有限公司	PRC – Limited liability company	RMB18,890,000	-	-	-	53.60	Provision of natural gas and related services and gas pipeline construction
深圳北科蘭光能源系統技術有限 責任公司 *	PRC – Limited liability company	RMB58,000,000	-	-	-	59.56	Investment holding

* Non-wholly owned subsidiaries of the Company in 2006 held through Towngas China.

Notes:

- Southwest Panva held a 56.94% equity interest.
- Yangzi Panva held a 55.00% equity interest.

None of the subsidiaries had issued any debt securities at end of the year.

The above table lists the subsidiaries of the Company as at 31 December 2007 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries as at 31 December 2006 would, in the opinion of the directors, result in particulars of excessive length.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
RESULTS					
Turnover	559,797	856,431	2,820,170	3,804,168	1,735,303
Profit (loss) before taxation	109,297	130,931	318,609	(149,566)	(10,731)
Taxation	(8,899)	–	(33,828)	(17,879)	(462)
Profit (loss) for the year	100,398	130,931	284,781	(167,445)	(11,193)
Attributable to:					
Equity holders of the Company	68,647	90,331	190,958	(79,621)	(2,425)
Minority interests	31,751	40,600	93,823	(87,824)	(8,768)
Profit (loss) for the year	100,398	130,931	284,781	(167,445)	(11,193)

	For the year ended 31 December				
	2003 HK cents	2004 HK cents	2005 HK cents	2006 HK cents	2007 HK cents
Earnings (loss) per share					
Basic	13.24	3.91	4.88	(1.65)	(0.05)
Diluted	N/A	3.90	4.83	N/A	N/A

ASSETS AND LIABILITIES

	As at 31 December				
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
Total assets	1,436,456	2,943,620	9,121,347	8,803,137	5,001,294
Total liabilities	(689,869)	(1,463,497)	(4,363,977)	(4,000,167)	(1,257,277)
	746,587	1,480,123	4,757,370	4,802,970	3,744,017
Equity attributable to equity holders of the Company	679,674	1,372,610	3,740,234	3,688,763	3,743,467
Equity component of share option reserve of a listed subsidiary	–	–	6,090	14,002	–
Minority interests	66,913	107,513	1,011,046	1,100,205	550
	746,587	1,480,123	4,757,370	4,802,970	3,744,017