保利協鑫

GCL-Poly Energy Holdings Limited
保利協鑫能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3800)







Annual Report 2007

Contents

Four-Year Financial Summary

	For the year ended 31 December			
	2004 *HK$'000* *(note 1)*	2005 *HK$'000* *(note 1)*	2006 *HK$'000* *(note 1)*	**2007** ***HK$'000***
Revenue	438,431	822,819	910,022	**1,892,622**
Profit (loss) before taxation	19,440	52,643	89,200	**(221,451)**
Taxation	391	197	(3,460)	**4,132**
Profit (loss) for the year	19,831	52,840	85,740	**(217,319)**
Attributable to:				
Equity holders of the Company	4,900	27,048	58,295	**(273,679)**
Minority interests	14,931	25,792	27,445	**56,360**
	19,831	52,840	85,740	**(217,319)**

ASSETS AND LIABILITIES

	At 31 December			
	2004 *HK$'000* *(note 2)*	2005 *HK$'000* *(note 2)*	2006 *HK$'000* *(note 2)*	**2007** ***HK$'000***
Total assets	2,146,615	2,582,167	3,347,505	**7,333,786**
Total liabilities	1,512,004	1,923,146	2,828,065	**4,517,598**
	634,611	659,021	519,440	**2,816,188**
Equity attributable to equity holders of the Company	458,689	474,256	313,435	**2,427,341**
Minority interests	175,922	184,765	206,005	**388,847**
	634,611	659,021	519,440	**2,816,188**

Notes:

1. The results for the years ended 31 December 2004, 2005 and 2006 have been prepared on a consolidated basis to present the results of the Group as if the group structure, at the time the Company's shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The figures for each of the three years have been extracted from the Prospectus.

2. The assets and liabilities as at 31 December 2004, 2005 and 2006 have been prepared on a consolidated basis to present the assets and liabilities of the Group as if the group structure, at the time the Company's shares were listed on the Stock Exchange, had been in existence as at each of the balance sheet dates. The figures as at 31 December 2004, 2005 and 2006 have been extracted from the Prospectus.

Performance Highlights

	2007 *HK$'000*	2006 *HK$'000*	**Change**	**% of change**
Turnover				
Sales of electricity	**1,508,392**	711,600	796,792	112.0%
Sales of steam	**384,230**	198,422	185,808	93.6%
	1,892,622	910,022	982,600	108.0%
(Loss) profit attributable to equity holders of the Company				
Profit from ordinary operation	**100,559**	84,465	16,094	19.1%
Loss from non-recurring items	**(374,238)**	(26,170)	348,068	1,330.0%
	(273,679)	58,295	(331,974)	(569.5%)
Basic (loss) earnings per share *(HK cents)*				
Profit from ordinary operation	**21.51**	21.70	(0.19)	(0.9%)
Loss from non-recurring items	**(80.05)**	(6.72)	73.33	1,091.2%
	(58.54)	14.98	(73.52)	(490.8%)
Extracts of balance sheet				
Equity attributable to equity holders of the Company	**2,427,341**	313,435	2,113,906	674.4%
Total assets	**7,333,786**	3,347,505	3,986,281	119.1%
Bank balances, cash and pledged bank deposits	**1,117,106**	341,070	776,036	227.5%
Bank and other borrowings	**3,716,306**	1,531,285	2,185,021	142.7%
Key financial ratios				
Current ratio	**0.81**	0.64	0.17	26.6%
Quick ratio	**0.75**	0.59	0.16	27.1%
Net debt to equity	**107%**	380%	(273%)	(71.8%)

Major Events 2007

MAJOR EVENTS OF GCL-POLY IN 2007

November 2007	GCL-Poly was successfully listed on the Stock Exchange with the Stock Code 3800, and completed the Poly Acquisition on the listing date and the Convertible Note was fully converted or redeemed.
December 2007	GCL-Poly completed the acquisitions of 30.6% equity interest in Funing Cogeneration Plant, 100% equity interest in Puyuan Cogeneration Plant, 100% equity interest in Xinneng Cogeneration Plant and 100% equity interest in Suzhou Fuel Company.

Major Events of the Power Plants

Upgrades of power plants completed in 2007

Name of Power Plant	Description
Jiaxing Cogeneration Plant	No. 3 generator and no. 3 boiler commenced operation in July 2007
Puyuan Cogeneration Plant	No. 2 generator and no. 2 boiler commenced operation in July 2007 No. 1 generator and no. 1 boiler commenced operation in October 2007
Baoying Cogeneration Plant	No. 3 boiler (biomass boiler) commenced operation in September 2007
Lianyungang Xiexin Cogeneration Plant	No. 3 boiler (biomass boiler) commenced operation in September 2007
Rudong Cogeneration Plant	No. 3 boiler commenced operation in December 2007
Xinneng Cogeneration Plant	No. 3 boiler commenced operation in November 2007

Commencement of upgrading construction work in 2007

Jiaxing Cogeneration Plant	Commence upgrade construction work to no. 4 boiler in November 2007
Puyuan Cogeneration Plant	Commence upgrade construction work to no. 3 boiler and no. 3 generator in November 2007
Xinneng Cogeneration Plant	Commence construction work of no. 2 generator in November 2007 and the generator commenced operation in February 2008

Major Events 2007

MAJOR EVENTS OF GCL-POLY IN 2007 *(continued)*

Major contracts signed and preferential policy granted in 2007

Name of Power Plant	Description
Taicang Incineration Plant	Major contracts: On 10 April 2007, it signed a verified emission reductions purchase agreement with an independent third party. Obtained the comprehensive utility power plant certification with a valid period from January 2007 to December 2008 with such certification, it enjoys refund of the value-added tax payable.
Lianyungang Xiexin Cogeneration Plant	The on-grid tariff was approved by the Jiangsu Province Pricing Bureau as RMB646/MWh on 6 November 2007. Before that, the on-grid tariff was RMB469/MWh. On 28 September 2007, it signed a verified emission reductions purchase agreement with an independent third party.
Xinneng Cogeneration Plant	On 30 July 2007, it signed a sludge incineration processing agreement with the Urban Planning Administration of Lianyungang.
Peixian Cogeneration Plant	On 16 April 2007, it signed a Memorandum of understanding with an independent third party to develop carbon credit potential for fuel switching projects in China.
Baoying Cogeneration Plant	The on-grid tariff was approved by the Jiangsu Province Pricing Bureau as RMB646/MWh on 1 November 2007. Before that, the on-grid tariff was RMB469/MWh. On 28 September 2007, it signed a verified emission reductions purchase agreement with an independent third party.
Suzhou Cogeneration Plant	The on-grid tariff was approved by the Jiangsu Province Pricing Bureau as RMB620/MWh in November 2007. Before that, the on-grid tariff was RMB520/MWh.

Company Profile

GCL-Poly Energy Holdings Limited is one of the largest foreign-owned independent cogeneration plant operators in the PRC and have been principally engaged in the development, management and operation of cogeneration plants in the PRC. With the exception of the Taicang Incineration Plant, all of our power plants are cogeneration plants, which provide steam simultaneously during the power generation process.

The power plants within the Group can be classified by fuel types as follows: coal-fired cogeneration plants, gas-fired cogeneration plant, resources comprehensive utilization plants, biomass fuelled cogeneration plants and municipal solid waste incineration plant. All these five categories are promoted and encouraged by the PRC Government.

As an environmental friendly energy enterprise, we benefit from various incentives provided by the PRC Government to environmental friendly power plants, such as higher on-grid tariffs, higher utilization hours, higher dispatch priority, exclusive rights to sell steam within the heat zone of our cogeneration plants and preferential tax treatments.

As of 31 December 2007, we have 18 operational power plants with attributable installed capacity of 594MW of which, 86% is located in Jiangsu province and 14% in Zhejiang province.

Chairman's Statement

I am pleased to report that revenue of the Group for the financial year 2007 amounted to HK$1,892.6 million, representing an increase of 108% compared to year 2006. Operating profit (gross profit and other income minus administrative expenses) amounted to HK$269.3 million, representing an increase of 61% compared to year 2006.

BUSINESS REVIEW

The Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 13 November 2007, which was an important milestone in our development. After listing, we continue our business strategy in developing environmental friendly and renewable energy projects and aims at becoming one of the world's leading environmental friendly enterprise.

Priced at the maximum offer price of HK$4.1 per share, the initial public offering raised a net proceeds of approximately HK$1,042 million. In accordance with the use of proceeds stated in our Prospectus, the acquisition of a 30.6% equity interest in the Funing Cogeneration Plant, a 100% equity interest in the Puyuan Cogeneration Plant, a 100% equity interest in the Xinneng Cogeneration Plant, a 100% equity interest in the Suzhou Fuel Company have been completed by 31 December 2007. The acquisition of a 49% equity interest in the China Resources Beijing Cogeneration Plant and the acquisition of 100% equity interest in Huitengliang Project Company have also been completed on 2 January 2008 and 28 March 2008 respectively.

Upon completion of the above acquisitions (excluding China Resources Beijing Cogeneration Plant and Huitengliang Project Company), the attributable installed capacity of our Group was increased from 558MW to 594MW, by 6.5% approximately. Our business in PRC has been further expanded. As disclosed in our Prospectus, some of our installed capacity have undergone expansions during the year:

Jiaxing Cogeneration Plant – installed one additional generator (no. 3 generator) and one additional boiler (no. 3 boiler). Expansion work was completed in July 2007. The additional installation increased the plant's generation capacity from 30MW to 36MW. The construction of no. 4 boiler was also commenced in November 2007.

Xinneng Cogeneration Plant – installed one additional generator (no. 2 generator) and one additional boiler (no. 3 boiler). No. 3 boiler expansion work was completed in November 2007 and no. 2 generator was completed in February 2008. The additional installation increased the plant's generation capacity from 6MW to 21MW.

Rudong Cogeneration Plant – installed one additional boiler (no. 3 boiler) with a capacity of 75 ton/h. Expansion work was completed in December 2007.

Baoying Cogeneration Plant – installed one additional boiler (no. 3 boiler) with a capacity of 75 ton/h. and upgraded two existing boilers to using biomass as its fuel. Expansion work was completed in September 2007. As a result of the plant being certified as a biomass fueled power plant. The on grid tariff was increased from RMB469/MWh to RMB646/MWh on 1 November 2007.

Chairman's Statement

BUSINESS REVIEW *(continued)*

Lianyungang Xiexin Cogeneration Plant – installed one additional boiler (no. 3 boiler) and upgraded two existing boilers. Expansion work was completed in September 2007. As a result of the plant being certified as a biomass fueled power plant, The on grid tariff was increased from RMB469/MWh to RMB646/MWh on 6 November 2007.

Puyuan Cogeneration Plant – commenced construction work of no. 3 boiler (with 90 tonne per hour capacity) and no. 3 generator (15MW) in November 2007.

These upgrades to the plants were in line with our expansion plan and increase their capacity to produce electricity and/or steam. Especially for Baoying Cogeneration Plant and Lianyungang Xiexin Cogeneration Plant, we are able to secure higher electricity tariff and on-grid power supply during the year by upgrading them to biomass fueled power plants.

Social Responsibilities

As an environmental friendly and renewable energy provider, we highly value the importance of social responsibilities. We place significant emphasis on environmental protection. By its nature, cogeneration plants, unlike conventional coal-fired power plants, supply power in addition to steam. The thermal efficiency is 15% to 40% higher than that of a power plant with the same generation capacity but generating power only. Moreover, our steam customers are required to stop operating their own boilers and this significantly reduces pollutant emissions. All our coal-fired cogeneration plants are either installed with CFB boilers or desulphurization equipment to reduce the emission of air pollutants.

On the other hand, there was widespread snow storm in various regions in PRC around end of January 2008. Having the advantage of fuel diversification, all our power plants operate without interruption during the period. Our effort in maintaining the supply of both electricity and heat was appreciated by local government authority. This demonstrates our comparative advantage of being an environmental friendly and a renewable energy provider with diversified fuel types.

Strategic Development

A number of policies have been issued by the PRC government in 2007 which support the development of environmental friendly energy including "Provisions On Guiding Foreign Investment Direction《外商投資產業指導目錄》" and "Measures on Dispatch of Energy Saving and Power Generation《節能發電調度辦法》". These policies not only encourage a long term and healthy development of environmental friendly energy and renewable energy, but also corroborate our Group's investment and development vision in our core business. Going forward, in line with our core value of being an environmental friendly and renewal energy provider, our Group will focus on developing coal cogeneration plant with single generator capacity of over 300MW, solid waste incineration plant, hydropower plant and windpower plant.

Chairman's Statement

BUSINESS REVIEW *(continued)*

Strategic Development *(continued)*

In accordance with the plan stated in our Prospectus, the acquisition of Huitengliang Project Company was completed in March 2008. The project is a 49.5MW windpower plant in Inner Mongolia. This acquisition is in line with our development direction in renewable energy. After acquisition, the attributable installed capacity of the Group will be further increased to 732MW upon completion of construction. To date, all the project acquisition plans stated in Prospectus have been completed.

PROSPECTS

The macroeconomic condition of China will continue to provide a favorable market environment for the development of power industry. In the Eleventh Five Year Plan of the PRC Government economic and Social Development Policy, a number of policies were put forward to support the central idea of "Energy Conservation and Emission Reduction". Our Group will ride on this government policy and develop environmental friendly and renewable energy power plants. We aim to increase the attributable installed capacity of the Group continuously through both acquisitions of and developing renewable energy plants. Our ultimate goal is to maximize shareholder's wealth and aim at becoming one of the world's leading environmental friendly enterprise.

APPRECIATION

In the past year, with the devoted efforts of all our member of staff, the operating results of the Group were encouraging. Moreover, the successful listing of the Group on the Main Board of the Stock Exchange was attributable to the persistent and dedicated hard work of members of our staff as well as all intermediaries involved. On behalf of the Board and the Shareholders, I would like to express my deepest gratitude to them.

Zhu Gong Shan
Chairman
10 April 2008

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. ZHU Gong Shan (朱共山), aged 50, is an Executive Director and the Chairman of the Company. Mr. Zhu is the founder of the Group and a Controlling Shareholder of the Company. He is responsible for determining the overall strategy of the Group, sourcing and development of new projects, maintaining the relationship between the Group and the other shareholders of the power plants in which the Group has interests; maintaining the relationship between the Group and the local government authorities in which the Group's power plants are located. He is currently a vice principal committee member of the Cogeneration Professional Committee of the Chinese Society for Electrical Engineering (中國電力工程協會熱電專業委員會的副常務委員). He graduated from the Nanjing Electrical Professional School (南京電力專科學校) in 1981, majoring in electrical automation. In 2005, Mr. Zhu obtained a degree of Doctor of Philosophy in Business Administration from the Bulacan State University of the Philippines.

Mr. JI Jun (姬軍), aged 60, is an Executive Director of the Company since November 2006. He focuses on strategic planning and business development of the Group. He has extensive experience in the power industry and has experience in handling corporate finance projects.

Mr. SHA Hong Qiu (沙宏秋), aged 49, is an Executive Director since November 2006 and the President of the Company. Mr. Sha is responsible for the overall operation and management of the Group. Mr. Sha had been awarded various titles, including the Outstanding Entrepreneur of Xuzhou (徐州市優秀企業家) in 2000 and the Outstanding Enterprise Manager of Taicang (太倉市優秀企業管理人才) in 2005. He graduated from the China University of Mining and Technology in 1986, majoring in enterprise management. Mr. Sha is a Senior Economist. He has over 10 years experience in the operation and management of power plants.

Mr. SHU Hua (舒樺), aged 45, Vice President, is an Executive Director since October 2007. He is responsible for operational management of the Group. He has over 10 years experience in the power industry and in the Group since June 2004. Mr. Shu has a Master degree in Business Administration for Senior Management from the Tongji University in the PRC.

Mr. YU Bao Dong (于寶東), aged 44, is an Executive Director since November 2006 and a Vice President of the Company. He is responsible for overall development strategy and project implementation for the Group. He has over 10 years experience in project investment and corporate management. Mr. Yu holds a Doctoral degree in Economics from the Wuhan University in the PRC.

Ms. SUN Wei (孫瑋), aged 36, re-joins the Company in October 2007 as an Executive Director. Ms. Sun obtained the Doctor of Philosophy in Business Administration from the Bulacan State University of the Philippines in 2005. Ms. Sun has over 10 years experience in power plant investment and management. She is responsible for the financial management of the Group, including participation in the budget planning process of the Group.

Mr. LAU Wai Yip (劉偉業), aged 45, is an Executive Director since July 2007 and the Financial Controller, Qualified Accountant and the Company Secretary of the Company. Mr. Lau is responsible for financial management, company secretarial, treasury, budgeting and financial reporting matters of the Group. Mr. Lau holds a degree of Master of Business Administration from the Hong Kong University of Science and Technology. He is a fellow of the Chartered Association of Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants. He is also a member of the American Institute of Certified Public Accountants.

Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. LAW Ryan Wing Cheung (羅永祥), aged 33, is a Non-Executive Director of the Company since November 2006. Mr. Law is currently an executive director in Morgan Stanley Principal Investments Department of Morgan Stanley, primarily focusing on private equity investment and structured financing activities in the PRC. He has over nine years' experience in investment and corporate finance and has been working for Morgan Stanley since 1998. He holds a Bachelor degree in Economics from the University of Chicago.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. QIAN Zhi Xin (錢志新), aged 62, is an Independent Non-Executive Director since July 2007. Prior to that, he was a principal of the Development and Reform Commission of the Jiangsu Province in February 2004. Mr. Qian has a Doctoral degree in Management from the Nanjing Agricultural University in the PRC.

Mr. HENG Kwoo Seng (邢詒春), aged 60, is an Independent Non-Executive Director of the Company since July 2007. Mr. Heng is a partner of Morison Heng, a Certified Public Accountants firm in Hong Kong. Mr. Heng has been an independent non-executive director and company secretary of a number of companies listed on the Stock Exchange. Mr. Heng is a fellow of the Institute of Chartered Accountants in England and Wales, a member of the Hong Kong Institute of Certified Public Accountants and a certified public accountant in Hong Kong.

Ir. Dr. Raymond HO Chung Tai (何鍾泰), SBS, MBE, S.B. St. J., JP, aged 69, is an Independent Non-Executive Director of the Company since September 2007. He is a member of the Legislative Council of the HKSAR and a Deputy to the National People's Congress. He holds a doctorate degree in civil engineering from the City University of London, U.K., Hon. Doctor of Business Administration from the City University of H.K., Honorary Doctor of Laws from University of Manchester, U.K., a postgraduate diploma in geotechnical engineering from Manchester University, U.K. and a Bachelor degree in Engineering from the University of Hong Kong. Dr. Ho is currently Chairman of Guangdong Daya Bay Nuclear Plant and LingAo Nuclear Plant Safety Consultative Committee.

Mr. XUE Zhong Su (薛鍾甦), aged 68, is an Independent Non-Executive Director of the Company since October 2007. He graduated at Shanghai Jiaotong University in 1962. Mr. Xue worked for the Shanghai Municipal Power Company (上海市電力公司) in 1985 as the deputy general manager. From 1986 to 2000, Mr. Xue was the vice president of the Shanghai Municipal Power Bureau (上海市電力工業局) and deputy general manager of Shanghai Municipal Power Company. From 1994 to 2000, Mr. Xue was also the general manager of the Huaneng International Power Development Company, Shanghai Branch (華能國際電力開發公司上海分公司). From 2000 to 2005, Mr. Xue was the party secretary and general manager of the China Huaneng Group Company, Shanghai Branch (中國華能集團公司上海分公司). Mr. Xue has over 20 years of experience in the power industry.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. BAO Ding Shang (鮑定賞), aged 58, a Vice President and the Chief Technological Officer of the Group, is responsible for management and technological development of new projects of the Group. Mr. Bao joined the Group in February 2005. Mr. Bao graduated from the Hefei University of Technology. He is a Senior Engineer.

Mr. CUI Nai Rong (崔乃榮), aged 43, the General Manager of the Finance Management Department, is responsible for the financial control, internal accounting and capital management of the Group. Mr. Cui joined the Group in October 2004. Mr. Cui has graduated from the Shanghai University of Finance and Economics and is an accountant in the PRC.

Ms. HU Xiao Yan (胡曉艷), aged 36, the General Manager of the Internal Control Department, is responsible for the internal control of the Group. She is a registered tax agent, real estate appraiser, a certified public valuer and accountant in the PRC. Ms. Hu joined the Group in October 2004.

Ms. WU Si Jun (吳思軍), aged 50, the Chief Legal Officer (China region) and the Vice General Manager of the Internal Control Department, is responsible for legal matters management of the Group. Ms. Wu is a qualified lawyer in the PRC since 1994 and has practiced in a law firm in the PRC. She has graduated from the Anhui Agricultural University in the PRC. Ms. Wu joined the Group in November 2001.

Mr. ZHANG Hai Tao (張海濤), aged 36, the General Manager of the Strategic Investment Department, is responsible for project investment and management of the Group. Mr. Zhang joined the Group in June 2001. Mr. Zhang has a Master degree in engineering from the Dalian Maritime University in the PRC.

Management Discussion and Analysis

BUSINESS REVIEW

Corporate Reorganisation

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 12 July 2006. Pursuant to a reorganisation to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange, the Company became the holding company of the then subsidiaries of the Group. Details of reorganisation are set out in the Company's Prospectus dated 31 October 2007. The shares of the Company were listed on the main board of the Stock Exchange on 13 November 2007.

Asset Acquisition

Upon listing of the Company, we have acquired additional interests in the following power plants. The changes in our equity interests in these power plants are as follows:

- Taicang Poly Cogeneration Plant increased to 100% from 49%;
- Jiaxing Cogeneration Plant increased to 95% from 44%;
- Dongtai Cogeneration Plant increased to 100% from 49.9%;
- Peixian Cogeneration Plant increased to 100% from 49.9%;
- Xuzhou Cogeneration Plant increased to 75% from 38.25%; and
- 29.4% equity interest in the Funing Cogeneration Plant was acquired.

During the period from the date of listing of the Shares of the Company to 31 December 2007, we have completed the acquisitions of 100% equity interests in each of Puyuan Cogeneration Plant, Xinneng Cogeneration Plant and Suzhou Fuel Company and an additional 30.6% equity interest in the Funing Cogeneration Plant. Following the completion of acquisition, the Group holds 60% of the equity interest in Funing Cogeneration Plant.

Subsequent to the year ended 31 December 2007, we have also completed the acquisition of 49% equity interest in China Resources Beijing Cogeneration plant in January 2008 and completed the acquisition of the entire equity interest in Huitengliang Project Company in March 2008.

These acquisitions enlarged the Group's business operation and enhanced our future operation capacity. In particular, the acquisition of Suzhou Fuel Company, which is engaged in the procurement of coal, enables us to bargain for more favorable terms when negotiating with coal suppliers through centralized sourcing function. Moreover, Suzhou Fuel Company improves our overall efficiency by overseeing and controlling our coal costs at the Group level.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Generation Capacity

As at 31 December 2007, the Group owns 17 cogeneration plants and 1 solid waste incineration plant which are all in commercial operation, with an attributable installed capacity of 594.3MW and an attributable steam extraction capacity of 1,562.4 ton/h. It represented an increase of 28.0% and 53.6% as compared with attributable installed capacity of 464.3MW and attributable steam extraction capacity of 1,017.5 ton/h as at 31 December 2006. The significant increase was mainly due to the aforementioned acquisitions and the commencement of commercial operation of the following power plant facilities in 2007.

- Unit 3 generator and unit 3 boiler of the Jiaxing Cogeneration Plant in July 2007
- Unit 2 generator and unit 2 boiler of the Puyuan Cogeneration Plant in July 2007
- Unit 1 generator and unit 1 boiler of the Puyuan Cogeneration Plant in October 2007
- Unit 3 boiler of Baoying Cogeneration Plant in September 2007
- Unit 3 boiler of Lianyungang Xiexin Cogeneration Plant in September 2007
- Unit 3 boiler of Xinneng Cogeneration Plant in November 2007
- Unit 3 boiler of Rudong Cogeneration Plant in December 2007

Below are the tables detailing the generation capacity of electricity and steam as at 31 December 2007 and 31 December 2006.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Generation Capacity – Electricity

Plant	Fuel(s)	Actual In-Service Date	Approved Generators	Installed Capacity MW	Current Equity Interest	Attributable Installed Capacity MW 31.12.2007	Attributable Installed Capacity MW 31.12.2006
Kunshan Cogeneration Plant	Coal	Unit #1 Aug '03 Unit #2 Sep '03	2	2 x 24	51%	**24.5**	24.5
Haimen Cogeneration Plant	Coal	Unit #1 Dec '03 Unit #2 Jan '04	2	2 x 15	51%	**15.3**	15.3
Rudong Cogeneration Plant	Coal	Unit #1 Nov '04 Unit #2 Jan '05	2	2 x 15	100%	**30.0**	30.0
Huzhou Cogeneration Plant	Coal	Unit #1 Sep '04 Unit #2 Dec '04	3	2 x 15	94.77%	**28.4**	28.4
Taicang Poly Cogeneration Plant	Coal	Unit #1 Dec '98 Unit #2 Feb '99 Unit #3 May '03	3	3 x 15	100%	**45.0**	22.1
Jiaxing Cogeneration Plant	Coal	Unit #1 Aug '05 Unit #2 Oct '05 Unit #3 Jul '07	3	2 x 15 + 1 x 6	95%	**34.2**	13.2
Xinneng Cogeneration Plant	Coal/Sludge	Unit #1 Oct '06 (a)	2	1 x 6	100%	**6.0**	N/A (c)
Suzhou Cogeneration Plant	Natural Gas	Unit #1 Sep '05 Unit #2 Nov '05	2	2 x 180	51%	**183.6**	183.6
Fengxian Cogeneration Plant	Coal/Coal Sludge/Gangue	Unit #1 Oct '03 Unit #2 Nov '03	2	2 x 15	51%	**15.3**	15.3
Yangzhou Cogeneration Plant (f)	Coal/Coal Sludge/Sludge	Unit #1 Mar '04 Unit #2 Apr '04	2	2 x 24	51%	**24.5**	24.5
Dongtai Cogeneration Plant	Coal/Coal Sludge	Unit #1 Jul '97 Unit #2 Jun '98	2	2 x 15	100%	**30.0**	15.0
Peixian Cogeneration Plant	Coal/Coal Sludge/Gangue	Unit #1 May '00 Unit #2 Jul '00	2	2 x 15	100%	**30.0**	15.0
Xuzhou Cogeneration Plant	Coal/Coal Sludge/Gangue	Unit #1 Dec '02 Unit #2 Jan '03	2	2 x 15	75%	**22.5**	11.5
Puyuan Cogeneration Plant (f)	Coal/Coal Sludge/Gangue	Unit #1 Oct '07 (b) Unit #2 Jul '07	3	1 x 15 + 1 x 6	100%	**21.0**	N/A (c)
Funing Cogeneration Plant	Coal/Coal Sludge	Unit #1 Dec '02 Unit #2 Feb '03	2	2 x 15	60%	**18.0**	N/A (d)
Baoying Cogeneration Plant	Coal/Coal Sludge/Biomass	Unit #1 Apr '05 Unit #2 Jun '05	2	2 x 15	100%	**30.0**	30.0
Lianyungang Xiexin Cogeneration Plant	Coal/Biomass	Unit #1 Jul '05 Unit #2 Sep '05	2	2 x 15	100%	**30.0**	30.0
Taicang Incineration Plant	Municipal Solid Waste	Unit #1 Oct '06	1	1 x 6	100%	**6.0**	6.0
Plants being our subsidiary or associated company as at 31 December				870		**594.3**	464.3

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Generation Capacity – Electricity *(continued)*

Plant	Fuel(s)	Actual In-Service Date	Approved Generators	Installed Capacity MW	Current Equity Interest	Attributable Installed Capacity MW 31.12.2007	Attributable Installed Capacity MW 31.12.2006
Acquisition of operating company in 2008							
China Resources Beijing Cogeneration Plant	Natural Gas	Unit #1 Jul '06 Unit #2 Jul '06	2	2 x 75	49%	**73.5**	N/A (e)
Total (including acquisition of operating company in 2008)				1 ,020		**667.8**	464.3

Notes:

a. Unit 2 generator of the Xinneng Cogeneration Plant commenced operation in February 2008.

b. Unit 3 generator of the Puyuan Cogeneration Plant is expected to commence operation in July 2008.

c. The Group acquired the entire equity interest with effect from November 2007.

d. The Group acquired 29.4% interest upon IPO and a further interest of 30.6% on 27 November 2007.

e. The acquistion of China Resources Beijing Cogeneration Plant was completed in January 2008.

f. Applying for certification as resources comprehensive utilization plants.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Generation Capacity – Steam

Plant	Fuel(s)	Actual In-Service Date	Approved Boilers	Installed Boilers	Steam Extraction Capacity ton/h	Current Equity Interest	Attributable Steam Extraction Capacity ton/h 31.12.2007	Attributable Steam Extraction Capacity ton/h 31.12.2006
Kunshan Cogeneration Plant	Coal	Unit #1 Aug '03 Unit #2 Sep '03 Unit #3 Sep '05	3	3	160	51%	**81.6**	81.6
Haimen Cogeneration Plant	Coal	Unit #1 Dec '03 Unit #2 Jan '04	3	2	100	51%	**51.0**	51.0
Rudong Cogeneration Plant	Coal	Unit #1 Nov '04 Unit #2 Jan '05 Unit #3 Dec '07	3	3	100	100%	**100.0**	100.0
Huzhou Cogeneration Plant	Coal	Unit #1 Sep '04 Unit #2 Dec '04	4	2	100	94.77%	**94.8**	94.8
Taicang Poly Cogeneration Plant	Coal	Unit #1 Dec '98 Unit #2 Feb '99 Unit #3 May '03 Unit #4 Apr '05	4	4	150	100%	**150.0**	73.5
Jiaxing Cogeneration Plant	Coal	Unit #1 Aug '05 (a) Unit #2 Oct '05 Unit #3 Jul '07	4	3	172	95%	**163.4**	44.0
Xinneng Cogeneration Plant	Coal/Sludge	Unit #1 Oct '06 Unit #2 Oct '06 Unit #3 Nov '07	3	3	30	100%	**30.0**	N/A (c)
Suzhou Cogeneration Plant	Natural Gas	Unit #1 Sep '05 Unit #2 Nov '05	2	2	200	51%	**102.0**	102.0
Fengxian Cogeneration Plant	Coal/Coal Sludge/Gangue	Unit #1 Oct '03 Unit #2 Nov '03 Unit #3 Jun '05	3	3	100	51%	**51.0**	51.0
Yangzhou Cogeneration Plant (f)	Coal/Coal Sludge/Sludge	Unit #1 Mar '04 Unit #2 Apr '04	3	2	160	51%	**81.6**	81.6
Dongtai Cogeneration Plant	Coal/Coal Sludge	Unit #1 Jul '97 Unit #2 Jun '98	3	2	100	100%	**100.0**	49.9
Peixian Cogeneration Plant	Coal/Coal Sludge/Gangue	Unit #1 May '00 Unit #2 Jul '00 Unit #3 Dec '02	3	3	100	100%	**100.0**	49.9

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Generation Capacity – Steam *(continued)*

Plant	Fuel(s)	Actual In-Service Date	Approved Boilers	Installed Boilers	Steam Extraction Capacity ton/h	Current Equity Interest	Attributable Steam Extraction Capacity ton/h 31.12.2007	Attributable Steam Extraction Capacity ton/h 31.12.2006
Xuzhou Cogeneration Plant	Coal/Coal Sludge/Gangue	Unit #1 Dec '02 Unit #2 Jan '03 Unit #3 Aug '03	3	3	100	75%	**75.0**	38.3
Puyuan Cogeneration Plant (f)	Coal/Coal Sludge/Gangue	Unit #1 Oct '07 (b) Unit #2 Jul '07	3	2	122	100%	**122.0**	N/A (c)
Funing Cogeneration Plant	Coal/Coal Sludge	Unit #1 Dec '02 Unit #2 Feb '03 Unit #2 Sep '04	3	3	100	60%	**60.0**	N/A (d)
Baoying Cogeneration Plant	Coal/Coal Sludge/Biomass	Unit #1 Apr '05 Unit #2 Jun '05 Unit #3 Sep '07	3	3	100	100%	**100.0**	100.0
Lianyungang Xiexin Cogeneration Plant	Coal/Biomass	Unit #1 Jul '05 Unit #2 Sep '05 Unit #3 Sep '07	3	3	100	100%	**100.0**	100.0
Taicang Incineration Plant	Municipal Solid Waste	Unit #1 Oct '06 Unit #2 Oct '06	3	2	N/A	100%	**N/A**	N/A
Plants being our subsidiary or associated company as at 31 December					1,994		**1,562.4**	1,017.5
Acquisition of operating company in 2008								
China Resources Beijing Cogeneration Plant	Natural Gas	Unit #1 Jul '06 Unit #2 Jul '06	2	2	100	49%	**49.0**	N/A (e)
Total (including acquisition of operating company in 2008)					2,094		**1,611.4**	1,017.5

Notes:

a. Unit 4 boiler of the Jiaxing Cogeneration Plant is expected to commence operation in June 2008.

b. Unit 3 boiler of the Puyuan Cogeneration Plant is expected to commence operation in July 2008.

c. The Group acquired the entire equity interest with effect from November 2007.

d. The Group acquired 29.4% interest upon IPO and a further interest of 30.6% on 27 November 2007.

e. The acquisition of China Resources Beijing Cogeneration Plant was completed in January 2008.

f. Applying for certification as resources comprehensive utilization plants.

BUSINESS REVIEW *(continued)*

Electricity

Generation Volume

Total gross generation volume of electricity was 5,300,202MWh for the year ended 31 December 2007, representing an increase of 6.3% as compared with 4,983,979MWh in 2006. Total electricity sales volume was 4,809,142MWh for the year ended 31 December 2007, representing an increase of 5.0% as compared with 4,578,631MWh in 2006. The increase was mainly due to the growth of attributable operational generation capacity from 464.3MW in 2006 to 594.3MW in 2007. The gross generation and electricity sales volume of each of the cogeneration plants are tabled as follows:

Electricity – Generation Volume

Plant	**Gross Generation MWh 2007**	Gross Generation MWh 2006	**Electricity Sales MWh 2007**	Electricity Sales MWh 2006
Kunshan Cogeneration Plant	**425,110**	401,872	**377,241**	357,691
Haimen Cogeneration Plant	**196,671**	197,070	**175,450**	178,122
Rudong Cogeneration Plant	**180,809**	185,578	**161,160**	166,321
Huzhou Cogeneration Plant	**201,823**	226,213	**178,936**	201,403
Taicang Poly Cogeneration Plant	**339,912**	355,609	**299,506**	321,769 (d)
Jiaxing Cogeneration Plant	**209,050**	207,366	**179,195**	180,893 (d)
Xinneng Cogeneration Plant	**52,656**	N/A (a)	**42,880**	N/A (a)
Suzhou Cogeneration Plant	**1,698,204**	1,775,549	**1,634,911**	1,705,798 (c)
Fengxian Cogeneration Plant	**212,364**	210,315	**185,247**	187,629
Yangzhou Cogeneration Plant	**369,728**	340,710	**328,540**	304,830
Dongtai Cogeneration Plant	**198,538**	200,300	**178,910**	181,700 (d)
Peixian Cogeneration Plant	**221,737**	220,024	**192,920**	195,423 (d)
Xuzhou Cogeneration Plant	**221,993**	207,997	**197,074**	185,186 (d)
Puyuan Cogeneration Plant	**69,901**	N/A (a)	**61,482**	N/A (a)
Funing Cogeneration Plant	**211,863**	N/A (b)	**182,540**	N/A (b)
Baoying Cogeneration Plant	**234,278**	224,100	**208,101**	203,430
Lianyungang Xiexin Cogeneration Plant	**214,115**	223,014	**193,202**	202,767
Taicang Incineration Plant	**41,450**	8,262	**31,847**	5,669
Plants being our subsidiary or associated company as at 31 December	**5,300,202**	4,983,979	**4,809,142**	4,578,631
Acquisition of operating company in 2008				
China Resources Beijing Cogeneration Plant	**749,470**	N/A (e)	**736,175**	N/A (e)
Total (including acquisition of operating company in 2008)	**6,049,672**	4,983,979	**5,545,317**	4,578,631

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Electricity *(continued)*

Electricity – Generation Volume (continued)

Notes:

a. The Group acquired the entire equity interest with effect from November 2007.

b. The Group acquired 29.4% interest upon IPO and a further interest of 30.6% on 27 November 2007.

c. Transfer from an associate to a subsidiary of the Group on 13 March 2007.

d. Became a subsidiary upon IPO on 13 November 2007; previously accounted for as an associated company.

e. The acquisition of China Resources Beijing Cogeneration Plant was completed in January 2008.

Average Utilization Hours

The average utilization hours of a cogeneration plant refers to the amount of electricity produced in a specified period (in MWh) divided by the average installed capacity of the power plant in such period (in MW). The increase of the average utilization hours of the Group from 7,153 hours in 2006 to 7,302 hours in 2007 mainly reflected the increase in demand of power in the PRC in 2007. The following table shows the average utilization hours of each cogeneration plant.

Electricity – Average Utilization Hours

Plant	**Hours 2007**	Hours 2006
Kunshan Cogeneration Plant	**8,857** (f)	8,372
Haimen Cogeneration Plant	**6,556**	6,569
Rudong Cogeneration Plant	**6,027**	6,186
Huzhou Cogeneration Plant	**6,727**	7,540
Taicang Poly Cogeneration Plant	**7,554**	7,902 (a)
Jiaxing Cogeneration Plant	**5,807**	6,912 (a)
Xinneng Cogeneration Plant	**8,776** (g)	N/A (b)
Suzhou Cogeneration Plant	**4,717** (e)	4,932 (e)
China Resources Beijing Cogeneration Plant	**4,996** (d)	N/A (d)
Fengxian Cogeneration Plant	**7,079**	7,010
Yangzhou Cogeneration Plant	**7,702**	7,098
Dongtai Cogeneration Plant	**6,618**	6,677 (a)
Peixian Cogeneration Plant	**7,391**	7,334 (a)
Xuzhou Cogeneration Plant	**7,400**	6,933 (a)
Puyuan Cogeneration Plant	**3,328**	N/A (b)
Funing Cogeneration Plant	**7,062** (c)	N/A (c)
Baoying Cogeneration Plant	**7,809**	7,470
Lianyungang Xiexin Cogeneration Plant	**7,137**	7,434
Taicang Incineration Plant	**6,908**	1,377

BUSINESS REVIEW *(continued)*

Electricity *(continued)*

Electricity – Average Utilization Hours (continued)

Notes:

a. Became a subsidiary upon IPO on 13 November 2007; previously accounted for as an associated company and excluded from the calculation of average utilization hours for the Group in 2006.

b. The Group acquired the entire equity interest with effect from November 2007.

c. The Group acquired 29.4% interest upon IPO and a further interest of 30.6% on 27 November 2007 and excluded from the calculation of average utilization hours for the Group in 2007.

d. The acquisition of China Resources Beijing cogeneration plant was completed in January 2008 and excluded from the calculation of average utilization hours for the Group in 2006 and 2007.

e. Transfer from an associate to a subsidiary of the Group on 13 March 2007 and excluded from the calculation of average utilization hours for the Group in 2007. If included, the average utilization hours became 6,173 hours.

f. The average utilization hours of the Kunshan Cogeneration Plant exceeded the calendar hours (8,760 hours per year) because the generators sometimes worked at their maximum working condition at the level of 60MW. If we calculate the average utilization hours based on 60MW, the average utilization hours for years 2006 and 2007 would be 6,698 hours and 7,086 hours.

g. The average utilization hours of the Xinneng Cogeneration Plant exceeded the calendar hours (8,760 hours per year) because the generators sometimes worked at their maximum working condition at the level of 6.8MW. If we calculate the average utilization hours based on 6.8MW, the average utilization hours for year 2007 would be 7,744 hours.

Approved On-grid Tariff

Each of our power plants' major customer for its electricity output is its local provincial power grid company. The price is based on the approved on-grid tariff determined by the provincial price bureaus. On-grid tariff depends on the fuel type of the relevant power plant and whether government encouraged desulphurization equipment has been used. In 2007, our gas fuelled cogeneration plant in Suzhou as well as our Baoying Cogeneration Plant and Lianyungang Xiexin Cogeneration Plant benefited from an increase in on-grid tariff, while the tariffs of other cogeneration plants remained stable as compared with 2006. During the year 2007, the approved on-grid tariff of plants being our subsidiary or associated company, ranged from RMB458/MWh to RMB646/MWh. Excluding those plants not yet acquired in 2006, the approved on-grid tariff for the year 2006 ranged from RMB458/MWh to RMB575/MWh.

Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Steam

Generation Volume

Total output of steam of the plants was 5,596,645 tons for the year ended 31 December 2007, representing an increase of 42.3% as compared with 3,933,940 tons in 2006. Steam sales of 4,842,683 tons for the year ended 31 December 2007 was recorded, representing an increase of 45.0% as compared with 3,338,812 tons in 2006. The increase was mainly due to the growth of attributable steam extraction capacity to 1,562.4 ton/h in 2007 from 1,017.5 ton/h in 2006. The following table shows the total steam output and the steam sales of each of the power plants.

Steam – Generation Volume

Plant	**Total Output ton 2007**	Total Output ton 2006	**Steam Sales ton 2007**	Steam Sales ton 2006
Kunshan Cogeneration Plant	**510,978**	460,331	**448,092**	400,095
Haimen Cogeneration Plant	**379,709**	380,863	**351,952**	334,768
Rudong Cogeneration Plant	**495,436**	408,328	**422,340**	349,451
Huzhou Cogeneration Plant	**265,473**	211,737	**244,474**	192,405
Taicang Poly Cogeneration Plant	**508,971**	509,018	**462,799**	450,828 (d)
Jiaxing Cogeneration Plant	**713,038**	216,822	**627,825**	191,431 (d)
Xinneng Cogeneration Plant	**192,437**	N/A (a)	**172,221**	N/A (a)
Suzhou Cogeneration Plant	**486,284**	438,654	**432,288**	373,899 (c)
Fengxian Cogeneration Plant	**338,894**	275,619	**292,748**	233,764
Yangzhou Cogeneration Plant	**301,050**	98,243	**226,874**	61,726
Dongtai Cogeneration Plant	**402,485**	358,901	**348,171**	285,011 (d)
Peixian Cogeneration Plant	**227,267**	194,083	**177,186**	149,652 (d)
Xuzhou Cogeneration Plant	**201,372**	186,450	**166,838**	168,735 (d)
Puyuan Cogeneration Plant	**153,968**	N/A (a)	**126,090**	N/A (a)
Funing Cogeneration Plant	**176,416**	N/A (b)	**154,671**	N/A (b)
Baoying Cogeneration Plant	**188,521**	130,459	**144,013**	92,085
Lianyungang Xiexin Cogeneration Plant	**54,347**	64,432	**44,101**	54,963
Plants being our subsidiary or associated company as at 31 December	**5,596,645**	3,933,940	**4,842,683**	3,338,812
Acquisition of an operating company in 2008				
China Resources Beijing Cogeneration Plant	**202,470**	N/A (e)	**202,470**	N/A (e)
Total (including acquisition of operating company in 2008)	**5,799,115**	3,933,940	**5,045,153**	3,338,812

BUSINESS REVIEW *(continued)*

Steam *(continued)*

Steam – Generation Volume (continued)

Notes:

a. The Group acquired the entire equity interest with effect from November 2007.

b. The Group acquired 29.4% interest upon IPO and a further interest of 30.6% on 27 November 2007.

c. Transfer from an associate to a subsidiary of the Group on 13 March 2007.

d. Became a subsidiary upon IPO on 13 November 2007; previously accounted for as an associated company.

e. The acquisition of China Resources Beijing Cogeneration Plant was completed in January 2008.

Approved Steam Price

As part of the incentives provided by the PRC Government, we sell steam to customers exclusively within a certain radius of where our cogeneration plants are located. Unlike on-grid tariffs of electricity, steam prices are negotiated commercially between the customers and the cogeneration plants subject to the local government pricing guidelines. Prices may vary according to the market forces. During each of the years 2007 and 2006, the approved steam price of plants being our subsidary or associated company, ranged from RMB120/ton to RMB186/ton.

Fuel Cost

The cogeneration plants within our Group are primarily fuelled by coal (including coal sludge, sludge and gangue) and natural gas.

Coal (including coal sludge, sludge and gangue) fuelled generation

In 2007, the average unit cost for electricity generation was RMB256.1/MWh, representing an increase of 6.2% as compared with RMB241.1/MWh in 2006. In 2007, the average unit cost for steam generation was RMB79.2/ton, representing an increase of 4.6% as compared with RMB75.7/ton in 2006. The increase is mainly due to the increase in coal price in the current year.

Natural gas-fuelled generation

Only Suzhou cogeneration plant, which became our subsidiary in 2007 is fuelled by natural gas. The average unit cost of electricity and steam generation of Suzhou Cogeneration Plant was RMB309.2/MWh and RMB74.6/ton, respectively.

We had acquired the entire equity interest in Suzhou Fuel Company, which is engaged in procurement of coal, by the end of 2007 by the proceeds of the IPO. Centralized procurement of coal through Suzhou Fuel Company enables us to have more favorable terms when negotiating with coal suppliers through bulk purchases and improve our overall efficiency by overseeing and controlling our coal costs at the Group level in future.

Management Discussion and Analysis

OPERATION STATISTICS

The following tables show certain operating statistics of cogeneration plants for the year ended 31 December 2007, 2006 and 2005.

1. The Kunshan Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 24**	2 x 24	2 x 24
Average Utilization Hours	Hours	**8,857**	8,372	9,751
Gross Generation	MWh	**425,110**	401,872	468,067
Power Sales	MWh	**377,241**	357,691	419,634
Standard Coal Consumption (Electricity Sales)	g/kWh	**389.00**	388.00	413.36
Steam Extraction Capacity	ton/h	**160**	160	160
Total Steam Output	ton	**510,978**	460,331	274,190
Steam Sales	ton	**448,092**	400,095	203,922
Standard Coal Consumption (Steam Sales)	Kg/GJ	**38.94**	38.74	40.10
Heat to Power Ratio	%	**113**	107	54
Thermal Efficiency	%	**47**	46	38

2. The Haimen Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 15**	2 x 15	2 x 15
Average Utilization Hours	Hours	**6,556**	6,569	6,960
Gross Generation	MWh	**196,671**	197,070	208,806
Power Sales	MWh	**175,450**	178,122	185,220
Standard Coal Consumption (Electricity Sales)	g/kWh	**450.80**	454.60	457.20
Steam Extraction Capacity	ton/h	**100**	100	100
Total Steam Output	ton	**379,709**	380,863	366,194
Steam Sales	ton	**351,952**	334,768	307,823
Standard Coal Consumption (Steam Sales)	Kg/GJ	**39.39**	39.23	39.47
Heat to Power Ratio	%	**188**	180	169
Thermal Efficiency	%	**49**	48	47

OPERATION STATISTICS *(continued)*

3. The Rudong Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 15**	2 x 15	2 x 15
Average Utilization Hours	Hours	**6,027**	6,186	7,257
Gross Generation	MWh	**180,809**	185,578	217,710
Power Sales	MWh	**161,160**	166,321	193,663
Standard Coal Consumption (Electricity Sales)	g/kWh	**431.15**	447.30	489.20
Steam Extraction Capacity	ton/h	**100**	100	100
Total Steam Output	ton	**495,436**	408,328	195,129
Steam Sales	ton	**422,340**	349,451	160,818
Standard Coal Consumption (Steam Sales)	Kg/GJ	**39.49**	39.47	39.48
Heat to Power Ratio	%	**271**	215	88
Thermal Efficiency	%	**54**	51	37

4. The Huzhou Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 15**	2 x 15	2 x 15
Average Utilization Hours	Hours	**6,727**	7,540	8,046
Gross Generation	MWh	**201,823**	226,213	241,390
Power Sales	MWh	**178,936**	201,403	216,803
Standard Coal Consumption (Electricity Sales)	g/kWh	**452.00**	472.40	484.04
Steam Extraction Capacity	ton/h	**100**	100	100
Total Steam Output	ton	**265,473**	211,737	166,640
Steam Sales	ton	**244,474**	192,405	146,219
Standard Coal Consumption (Steam Sales)	Kg/GJ	**40.03**	38.26	37.41
Heat to Power Ratio	%	**132**	94	68
Thermal Efficiency	%	**43**	39	35

5. The Taicang Poly Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**3 x 15**	3 x 15	3 x 15
Average Utilization Hours	Hours	**7,554**	7,902	8,488
Gross Generation	MWh	**339,912**	355,609	381,961
Power Sales	MWh	**299,506**	321,769	352,830
Standard Coal Consumption (Electricity Sales)	g/kWh	**439.00**	442.00	452.52
Steam Extraction Capacity	ton/h	**150**	150	150
Total Steam Output	ton	**508,971**	509,018	452,810
Steam Sales	ton	**462,799**	450,828	418,771
Standard Coal Consumption (Steam Sales)	Kg/GJ	**37.65**	37.72	37.77
Heat to Power Ratio	%	**143**	138	115
Thermal Efficiency	%	**46**	46	43

Management Discussion and Analysis

OPERATION STATISTICS *(continued)*

6. The Jiaxing Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 15 + 1 x 6**	2 x 15	2 x 15
Average Utilization Hours	Hours	**5,807**	6,912	1,741
Gross Generation	MWh	**209,050**	207,366	52,217
Power Sales	MWh	**179,195**	180,893	46,030
Standard Coal Consumption (Electricity Sales)	g/kWh	**387.20**	471.00	Nil
Steam Extraction Capacity	ton/h	**172**	100	100
Total Steam Output	ton	**713,038**	216,822	7,921
Steam Sales	ton	**627,825**	191,431	4,711
Standard Coal Consumption (Steam Sales)	Kg/GJ	**38.40**	39.93	Nil
Heat to Power Ratio	%	**361**	107	15
Thermal Efficiency	%	**61**	39	25

7. The Xinneng Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**1 x 6**	N/A	N/A
Average Utilization Hours	Hours	**8,776**	N/A	N/A
Gross Generation	MWh	**52,656**	N/A	N/A
Power Sales	MWh	**42,880**	N/A	N/A
Standard Coal Consumption (Electricity Sales)	g/kWh	**464.25**	N/A	N/A
Steam Extraction Capacity	ton/h	**30**	N/A	N/A
Total Steam Output	ton	**192,437**	N/A	N/A
Steam Sales	ton	**172,221**	N/A	N/A
Standard Coal Consumption (Steam Sales)	Kg/GJ	**43.24**	N/A	N/A
Heat to Power Ratio	%	**377**	N/A	N/A
Thermal Efficiency	%	**53**	N/A	N/A

OPERATION STATISTICS *(continued)*

8. The Suzhou Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 180**	2 x 180	2 x 180
Average Utilization Hours	Hours	**4,717**	4,932	947
Gross Generation	MWh	**1,698,204**	1,775,549	340,880
Power Sales	MWh	**1,634,911**	1,705,798	315,769
Standard Gas Consumption (Electricity Sales)	Nm^3/kWh	**0.233**	0.24	0.25
Steam Extraction Capacity	ton/h	**200**	200	200
Total Steam Output	ton	**486,284**	438,654	195,129
Steam Sales	ton	**432,288**	373,899	104,259
Standard Gas Consumption (Steam Sales)	Nm^3/GJ	**24.73**	29.72	30.46
Heat to Power Ratio	%	**25**	21	Nil
Thermal Efficiency	%	**47**	51	Nil

9. The China Resources Beijing Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 75**	N/A	N/A
Average Utilization Hours	Hours	**4,996**	N/A	N/A
Gross Generation	MWh	**749,470**	N/A	N/A
Power Sales	MWh	**736,175**	N/A	N/A
Standard Gas Consumption (Electricity Sales)	Nm^3/kWh	**0.2412**	N/A	N/A
Steam Extraction Capacity	ton/h	**100**	N/A	N/A
Total Steam Output	ton	**202,470**	N/A	N/A
Steam Sales	ton	**202,470**	N/A	N/A
Standard Gas Consumption (Steam Sales)	Nm^3/GJ	**30.90**	N/A	N/A
Heat to Power Ratio	%	**21**	N/A	N/A
Thermal Efficiency	%	**54**	N/A	N/A

Note: The acquisition of 49% equity interest in the China Resources Beijing Cogeneration Plant was completed in January 2008.

Management Discussion and Analysis

OPERATION STATISTICS *(continued)*

10. The Fengxian Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 15**	2 x 15	2 x 15
Average Utilization Hours	Hours	**7,079**	7,010	7,991
Gross Generation	MWh	**212,364**	210,315	239,723
Power Sales	MWh	**185,247**	187,629	211,403
Standard Coal Consumption (Electricity Sales)	g/kWh	**464.28**	467.83	479.84
Steam Extraction Capacity	ton/h	**100**	100	100
Total Steam Output	ton	**338,894**	275,619	290,742
Steam Sales	ton	**292,748**	233,764	247,975
Standard Coal Consumption (Steam Sales)	Kg/GJ	**39.78**	39.45	39.40
Heat to Power Ratio	%	**158**	129	120
Thermal Efficiency	%	**45**	42	40

11. The Yangzhou Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 24**	2 x 24	2 x 24
Average Utilization Hours	Hours	**7,702**	7,098	9,800
Gross Generation	MWh	**369,728**	340,710	470,409
Power Sales	MWh	**328,540**	304,830	422,210
Standard Coal Consumption (Electricity Sales)	g/kWh	**434.00**	435.00	452.35
Steam Extraction Capacity	ton/h	**160**	160	160
Total Steam Output	ton	**301,050**	98,243	76,930
Steam Sales	ton	**226,874**	61,726	48,136
Standard Coal Consumption (Steam Sales)	Kg/GJ	**39.90**	39.90	39.90
Heat to Power Ratio	%	**78**	27	15
Thermal Efficiency	%	**42**	36	33

12. The Dongtai Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 15**	2 x 15	2 x 15
Average Utilization Hours	Hours	**6,618**	6,677	7,578
Gross Generation	MWh	**198,538**	200,300	227,337
Power Sales	MWh	**178,910**	181,700	205,200
Standard Coal Consumption (Electricity Sales)	g/kWh	**462.56**	472.60	501.85
Steam Extraction Capacity	ton/h	**100**	100	100
Total Steam Output	ton	**402,485**	358,901	266,374
Steam Sales	ton	**348,171**	285,011	194,123
Standard Coal Consumption (Steam Sales)	Kg/GJ	**40.07**	40.82	40.10
Heat to Power Ratio	%	**194**	172	112
Thermal Efficiency	%	**48**	45	39

Management Discussion and Analysis

OPERATION STATISTICS *(continued)*

13. The Peixian Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 15**	2 x 15	2 x 15
Average Utilization Hours	Hours	**7,391**	7,334	7,961
Gross Generation	MWh	**221,737**	220,024	238,853
Power Sales	MWh	**192,920**	195,423	212,757
Standard Coal Consumption (Electricity Sales)	g/kWh	**517.70**	518.50	520.98
Steam Extraction Capacity	ton/h	**100**	100	100
Total Steam Output	ton	**227,267**	194,083	141,936
Steam Sales	ton	**177,186**	149,652	111,855
Standard Coal Consumption (Steam Sales)	Kg/GJ	**40.97**	41.03	41.43
Heat to Power Ratio	%	**100**	86	58
Thermal Efficiency	%	**38**	37	32

14. The Xuzhou Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 15**	2 x 15	2 x 15
Average Utilization Hours	Hours	**7,400**	6,933	7,964
Gross Generation	MWh	**221,993**	207,997	238,916
Power Sales	MWh	**197,074**	185,186	222,124
Standard Coal Consumption (Electricity Sales)	g/kWh	**492.38**	489.10	493.88
Steam Extraction Capacity	ton/h	**100**	100	100
Total Steam Output	ton	**201,372**	186,450	167,760
Steam Sales	ton	**166,838**	168,735	131,795
Standard Coal Consumption (Steam Sales)	Kg/GJ	**39.30**	39.22	38.90
Heat to Power Ratio	%	**89**	87	68
Thermal Efficiency	%	**37**	37	35

Management Discussion and Analysis

OPERATION STATISTICS *(continued)*

15. The Puyuan Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**1 x 15 + 1 x 6**	N/A	N/A
Average Utilization Hours	Hours	**3,328**	N/A	N/A
Gross Generation	MWh	**69,901**	N/A	N/A
Power Sales	MWh	**61,482**	N/A	N/A
Standard Coal Consumption (Electricity Sales)	g/kWh	**428.00**	N/A	N/A
Steam Extraction Capacity	ton/h	**123**	N/A	N/A
Total Steam Output	ton	**153,968**	N/A	N/A
Steam Sales	ton	**126,090**	N/A	N/A
Standard Coal Consumption (Steam Sales)	Kg/GJ	**38.69**	N/A	N/A
Heat to Power Ratio	%	**217**	N/A	N/A
Thermal Efficiency	%	**51**	N/A	N/A

16. The Funing Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 15**	N/A	N/A
Average Utilization Hours	Hours	**7,062**	N/A	N/A
Gross Generation	MWh	**211,863**	N/A	N/A
Power Sales	MWh	**182,540**	N/A	N/A
Standard Coal Consumption (Electricity Sales)	g/kWh	**517.38**	N/A	N/A
Steam Extraction Capacity	ton/h	**100**	N/A	N/A
Total Steam Output	ton	**176,416**	N/A	N/A
Steam Sales	ton	**154,671**	N/A	N/A
Standard Coal Consumption (Steam Sales)	Kg/GJ	**39.55**	N/A	N/A
Heat to Power Ratio	%	**81**	N/A	N/A
Thermal Efficiency	%	**35**	N/A	N/A

OPERATION STATISTICS *(continued)*

17. The Baoying Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 15**	2 x 15	2 x 15
Average Utilization Hours	Hours	**7,809**	7,470	4,923
Gross Generation	MWh	**234,278**	224,100	147,682
Power Sales	MWh	**208,101**	203,430	133,048
Standard Coal Consumption (Electricity Sales)	g/kWh	**485.89**	494.00	534.14
Steam Extraction Capacity	ton/h	**100**	100	100
Total Steam Output	ton	**188,521**	130,459	9,188
Steam Sales	ton	**144,013**	92,085	5,587
Standard Coal Consumption (Steam Sales)	Kg/GJ	**40.26**	40.55	41.63
Heat to Power Ratio	%	**75**	60	6
Thermal Efficiency	%	**36**	31	25

18. The Lianyungang Xiexin Cogeneration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**2 x 15**	2 x 15	2 x 15
Average Utilization Hours	Hours	**7,137**	7,434	2,375
Gross Generation	MWh	**214,115**	223,014	71,240
Power Sales	MWh	**193,202**	202,767	65,760
Standard Coal Consumption (Electricity Sales)	g/kWh	**521.00**	511.00	505.35
Steam Extraction Capacity	ton/h	**100**	100	100
Total Steam Output	ton	**54,347**	64,432	19,272
Steam Sales	ton	**44,101**	54,963	18,173
Standard Coal Consumption (Steam Sales)	Kg/GJ	**40.98**	39.15	41.53
Heat to Power Ratio	%	**24**	27	12
Thermal Efficiency	%	**27**	28	26

19. The Taicang Incineration Plant

	Unit	2007	2006	2005
Installed Capacity at Year End	MW	**1 x 6**	1 x 6	N/A
Average Utilization Hours	Hours	**6,908**	1,377	N/A
Gross Generation	MWh	**41,450**	8,262	N/A
Power Sales	MWh	**31,847**	5,669	N/A
Standard Coal Consumption (Electricity Sales)	g/kWh	**N/A**	N/A	N/A
Steam Extraction Capacity	ton/h	**N/A**	N/A	N/A
Total Steam Output	ton	**N/A**	N/A	N/A
Steam Sales	ton	**N/A**	N/A	N/A
Standard Coal Consumption (Steam Sales)	Kg/GJ	**N/A**	N/A	N/A
Heat to Power Ratio	%	**N/A**	N/A	N/A
Thermal Efficiency	%	**N/A**	N/A	N/A

Management Discussion and Analysis

OPERATION STATISTICS *(continued)*

Employees

The Group values quality employees as the most important resources. As at 31 December 2007, the Group had approximately 1,826 employees in Hong Kong and the PRC. Employees are remunerated with reference to individual performance, working experience, qualification and the prevailing industry practice. Apart from basic remuneration and statutory retirement benefit scheme, employee benefits include discretionary bonus, insurance as well as a share option scheme which may be granted to the eligible employees. On-the-job training and tailor-made training programs are offered to our employees in enhancing their management skills, technical skills as well as operational skills to meet the challenges ahead.

We focus not only on enhancing skills and technical proficiency but also on creating a more structured approach to talent management. We have been persisting a master of engineering and management trainee programme which was first launched at the University of Nanjing in 2006 to identify, assess and nurture managers and executives with a view to supporting future business growth and generating competitive advantage throughout the Group.

Health and Safety Compliance

All of our cogeneration plants within the Group have adopted various internal policies and are taking protective measures to prevent health and safety hazards. We have not encountered any material unplanned outage and do not expect any material risks in the future in relation to health and safety issues are monitored properly.

Environmental Protection

All existing coal-fired cogeneration plants, are either installed with circulating fluidized bed ("CFB") boilers, or in the case of pulverized coal boilers in such cogeneration plants, we have installed desulphurization equipment to reduce the emission of air pollutants. All power plants within our Group have obtained the required applicable approvals from and have satisfied the emission requirements set forth by local governments except for the Puyuan Cogeneration Plant of which the application is in progress.

All the power plants within our Group have installed the CEMS system which are required by the PRC Government for the purpose of monitoring pollutant emission of thermal power plants.

We believe that the environmental protection systems and facilities of power plants within our Group are adequate to comply with applicable national and local environmental protection regulations in the PRC where all our plants operate.

Management Discussion and Analysis

OPERATION STATISTICS *(continued)*

Post Balance Sheet Events

Subsequent to 31 December 2007, the Group have completed the acquisition of 49% equity interest in China Resources Beijing Cogeneration Plant in January 2008 and the entire equity interest in Huitengliang Project Company in March 2008 respectively.

On 29 February 2008, the Company served a written notice to a company controlled by our controlling shareholder, notifying that we had decided not to exercise an option nor a right of first refusal amongst others granted under the Non-competition Deed, to acquire 70% equity interest in Lianyungang Baoxin Biomass Cogeneration Plant. Please refer to our announcement dated 3 March 2008 for further details.

On 29 February 2008, the Group entered into a legally binding conditional framework agreement with an independent third party for (i) the acquisition of 70% equity interest in Lincang Runda Hydropower Plant, a joint venture company established in the PRC engaged in operating hydropower plants in Yunan, the PRC for an estimated consideration of RMB35,700,000 (approximately HK$38,387,000) subject to due diligence and further negotiation and (ii) proposed joint investment in certain other hydropower plants. Please refer to our announcement dated 29 February 2008 for further details.

Outlook

According to the Eleventh Five Year plan for national economy and social development, the PRC Government expects to achieve an average 7.5% annual Gross Domestic Product ("GDP") growth in the years 2006 to 2010. The growth rate of the power industry has grown at a rate higher than China's GDP since 2000 as a result of the rapid growth of industries and rising residential power demand as per capital income increased. We believe that demand for electricity will continue to be strong in the locations where our power plants are located. We believe the year of 2008 will continue to bring opportunities and challenges to our Group.

Management Discussion and Analysis

OPERATION STATISTICS *(continued)*

Business Strategy

We will continue to strive to be one of the most successful and environmental conscious power companies in the PRC. We will continue to strengthen our position and increase our market share by seeking strategic acquisition opportunities and utilizing our cumulative experience in developing, managing and operating cogeneration plants. In particular, we will continue to pursue the following strategies:

- Develop new cogeneration plants and seek strategic acquisition opportunities
- Expand and upgrade existing cogeneration plants
- Emphasize highly efficient and environmental friendly power plants and clean and renewable fuels together with desulphurization equipment
- Continue to implement rigorous cost control measures

In view of the continuous increase in the price of fuel, particularly the price of coal, which are primarily used by our cogeneration plants, we are considering several possible alternatives, including acquiring coal mining/supply companies for vertical integration and as part of our cost control measures.

FINANCIAL REVIEW

Comparison with Prospectus

In the Prospectus dated 31 October 2007, the Company forecasted its consolidated net profit attributable to the equity holders of the Company before loss on increase in fair value of the convertible note for the year 2007 to be not less than HK$63.9 million. The consolidated net profit attributable to the equity holders of the Company before loss on increase in fair value of the Convertible Note in the year 2007 is HK$74.9 million which exceeds the forecast by approximately HK$11.0 million or 17.2%.

Comparison with 2006

Revenue and operating profit (gross profit and other income minus administrative expenses) for the year ended 31 December 2007 was HK$1,892.6 million and HK$269.3 million respectively, compared to HK$910.0 million and HK$167.1 million in 2006. The surge is mainly attributable to the results of Suzhou Cogeneration Plant which was previously equity accounted for as an associate, have been consolidated as a subsidiary of the Group in March 2007 after the Group obtained its control over its operating and financial policies. In addition, the results of acquisitions of Taicang Poly Cogeneration Plant, Dongtai Cogeneration Plant, Jiaxing Cogeneration Plant, Peixian Cogeneration Plant, Xuzhou Cogeneration Plant, Puyuan Cogeneration Plant and Suzhou Fuel Company (collectively the "New Acquisitions") have been included in the consolidated income statement from the respective effective dates of acquisitions.

FINANCIAL REVIEW *(continued)*

The Results Excluding Suzhou Cogeneration Plant and New Acquisitions of Subsidiaries

To provide more comparable basis with last year, we take out the result of Suzhou Cogeneration Plant and New Acquisitions. The following is an analysis of the operations excluding the Suzhou Cogeneration Plant and the New Acquisitions so that the two years are more comparable.

	2007 (excluding Suzhou Cogeneration Plant and New Acquisitions) ***HK$'000***	2006 *HK$'000*
Revenue	**1,078,872**	910,022
Cost of sales	**(859,446)**	(710,753)
Gross profit	**219,426**	199,269
Gross profit (%)	**20.3%**	21.9%

Gross Profit

Gross profit in 2007 amounted to HK$219.4 million, representing an increase of HK$20.2 million, or 10.1%, from HK$199.3 million in 2006. It was mainly attributable to the expansion and upgrade of the existing power plants. In addition, a full year operation for 2007 has been recorded for Taicang Incineration Plant and Xinneng Cogeneration Plant which commenced operations in October 2006 and in November 2006, respectively. Gross profit margin slightly decreased to 20.3% in 2007 from 21.9% in 2006 mainly due to increase in coal price.

Share of Results of Associates

The Group's share of profit of associates dropped significantly by HK$26.4 million in 2007 from HK$46.7 million to HK$20.3 million. It was mainly due to the transfer of Suzhou Cogeneration Plant from an associate to a subsidiary as discussed above. In addition, following the further acquisitions of equity interests in the plants namely Dongtai Cogeneration Plant, Jiaxing Cogeneration Plant, Peixian Cogeneration Plant, Taicang Poly Cogeneration Plant and Xuzhou Cogeneration Plant upon IPO, all these plants which were accounted for as associates of the Group, have become our subsidiaries.

Management Discussion and Analysis

FINANCIAL REVIEW *(continued)*

Loss from Non-recurring Items

Upon listing of the shares of the Company on the Stock Exchange, the Group recorded a loss on increase in fair value of convertible note of HK$348.6 million upon the conversion of the convertible amount and redemption of the convertible note together with accrued interest. The fair value of the convertible note at the conversion date is determined based on the fair value of the shares issued and cash paid by the Company to the holder of the convertible note. The loss is a non-cash transaction and will not recur as the convertible note has been extinguished immediately after IPO. The Group has also recorded a net amount of HK$28.9 million representing listing expenses, net of subscription interest income. In addition, the Group has recorded a discount on acquisition of a subsidiary of HK$3.3 million. If we exclude all these non-recurring items, the profit attributable to shareholders from the ordinary operation was HK$100.6 million (2006: HK$84.5 million).

Loss for the Year

As a result of the above factors, the Group recorded a loss of HK$217.3 million for the year ended 31 December 2007 as compared with the profit for the year 2006 of HK$85.7 million.

Use of Proceeds from IPO

The net proceeds from the Company's issue of new shares in connection with its listing on the Stock Exchange, after deducting the underwriting commissions and other expenses amounted to HK$1,042.0 million. The proceeds received from the IPO are scheduled to be applied to further our strategy of increasing installed capacity through acquisition and expanding and upgrading our existing power plants. As of 31 December 2007, an aggregate amount of HK$556.5 million, representing 53.4% of the total net proceeds have been progressively utilized as set out in our Prospectus. Details of the utilization up to 31 December 2007 are set out below:

- approximately HK$275 million for the redemption of the loan amount of the convertible note.
- approximately HK$50 million for the cash portion of the consideration for the acquisitions of certain subsidiaries from Poly Group.
- approximately HK$183.6 million for the acquisition of the entire equity interest in the Suzhou Fuel Company, the Puyuan Cogeneration Plant and the Xinneng Cogeneration Plant and 30.6% of the equity interest in the Funing Cogeneration Plant.
- approximately HK$27.9 million for the expansion of Puyuan Cogeneration Plant, Xinneng Cogeneration Plant, Jiaxing Cogeneration Plant and Rudong Cogeneration Plant.
- approximately HK$20 million for the repayment of loan.

FINANCIAL REVIEW *(continued)*

Use of Proceeds from IPO *(continued)*

Subsequent to 31 December 2007, the Group had further utilised the proceeds in accordance with the use set out in the Prospectus as follows:

- approximately HK$156 million for acquisition of 49% interest in China Resources Beijing Cogeneration Plant; and
- approximately HK$22 million for acquisition of 100% equity interest in the Huitengliang Project Company.

Liquidity and Financial Resources

For the year ended 31 December 2007, the Group's primary sources of funding were cash generated from operating and financing activities, including the issuance of new shares on 13 November 2007 and new bank loans. Our principal liquidity requirements are for redemption of the loan amount of the non-convertible portion of the convertible note together with accrued interest, new investment financing and capital expenditures. As at 31 December 2007, the Group had a net current borrowings position of HK$476 million (31 December 2006: HK$56.4 million).

The Group's net current liabilities as at 31 December 2007 were HK$437.5 million (2006: HK$323.0 million). It was because the Group's capital expenditures were mainly financed by short-term borrowings and these short-term borrowings are expected to be renewable on an annual basis.

To manage the liquidity risk, the Group regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash in the short and long term. In particular, subsequent to 31 December 2007, the Group has obtained confirmations from lending banks to the effect that they agree to renew their short-term loan facilities in the aggregate amount of RMB889.2 million which were outstanding as of 31 December 2007.

As at 31 December 2007, shareholders' funds increased to HK$2,816.2 million (2006: HK$519.4 million). The surge was mainly attributable to the issue of new shares to Poly Investment (HK) Limited for the acquisition of its interests in certain power plants, conversion of the convertible portion of the convertible note and issue of new shares to the public upon IPO on 13 November 2007.

As at 31 December 2007, the Group's total assets were HK$7,333.8 million (2006: HK$3,347.5 million). Bank balances and cash including pledged bank deposits were HK$1,117.1 million (2006: HK$331.1 million).

Management Discussion and Analysis

FINANCIAL REVIEW *(continued)*

Borrowings

As at 31 December 2007, the Group's total borrowings amounted to HK$3,716 million (2006: HK$1,531 million). Below is a table showing the borrowing structure and maturity profile of the Group's total borrowings.

Borrowing Structure

	31 December 2007 ***HK$ million***	31 December 2006 *HK$ million*
Secured borrowings	**2,672**	633
Unsecured borrowings	**1,044**	898
	3,716	1,531

Maturity profile of borrowings

	31 December 2007 ***HK$ million***	31 December 2006 *HK$ million*
Repayable:		
On demand or within one year	**1,593**	387
After one year but within two years	**444**	320
After two years but within five years	**834**	565
After five years	**845**	259
Group's total borrowings	**3,716**	1,531

As at 31 December 2007, all of the Group's borrowings are denominated in RMB. The borrowings carry both fixed and floating rate interest at rates with reference to the Benchmark Borrowing Rate of The People's Bank of China. The fixed-rate borrowings and variable rate borrowings are 5.02% to 10.44% and Benchmark rate -0.5% to +2% respectively.

FINANCIAL REVIEW *(continued)*

Foreign Currency Risk

Most of our fuel costs and operating expenses, including our salaries and other personnel costs and other purchases, sales and administration costs, are denominated in RMB, and we collect all of our revenues in RMB. We expect to continue to incur a significant portion of our operating costs, and to recognise operating revenues in RMB. Our foreign currency exposure currently relates only to the proceeds raised from IPO not yet utilized and hence deposited in US dollars and HK dollars bank accounts with financial institutions. As at 31 December 2007, such deposits amounted to HK$379.6 million, out of which an aggregate amount of HK$178 million was subsequently paid for acquisitions pursuant to the planned use of proceeds as set out in the Prospectus.

In the future, we may as we deem appropriate, enter into financial instruments including forward foreign exchange contracts, to hedge against any foreign currency risk arising from our operations. Nevertheless, we currently have not engaged in any foreign currency hedging activities.

Key Financial Ratios of the Group

	2007	2006
Current ratio	**0.81**	0.64
Quick ratio	**0.75**	0.59
Net debt to equity	**107%**	380%

Current ratio	=	balance of current assets at the end of the year/balance of current liabilities at the end of the year
Quick ratio	=	(balance of current assets at the end of the year – balance of inventories at the end of the year)/balance of current liabilities at the end of the year
Net debt to shareholders' equity	=	(balance of total bank and other borrowings at the end of the year – balance of bank balances, cash and pledged bank deposits at the end of the year)/balance of equity attributable to equity holders of the Company at the end of the year

Management Discussion and Analysis

FINANCIAL REVIEW *(continued)*

Pledge of Assets

As at 31 Decemeber 2007, property, plant and equipment and prepaid lease payments with a carrying value approximately HK$3,550.4 million and HK$237.4 million respectively, were pledged as security for certain banking facilities granted to the Group. Apart from these, bank deposits in an aggregate amount of HK$258.4 million were pledged to banks to secure bills and notes payable and short term borrowings granted to the Group. The pledged bank deposits will be released upon repayment of the relevant borrowings and/or bills and notes payable.

Contingent Liabilities

As at 31 December 2007, there were no material contingent liabilities. As at 31 December 2006, the Group had given guarantees of HK$102.0 million to certain banks for banking facilities granted to associates and a related company. All these guarantees have been released in order to prepare for the listing of the Company on the Stock Exchange.

Corporate Governance Report

The Board believe that upholding the principles and practices of good corporate governance is crucial to the healthy growth of the Company. Therefore, we abide strictly by the laws and regulations of the jurisdictions in which we operate, and observe the guidelines and rules issued by regulatory authorities such as the laws of the PRC, Securities and Futures Commission of Hong Kong and the Stock Exchange.

The Board has established a Strategic Planning Committee, an Audit Committee and a Remuneration Committee. The Board and the respective committees will assess and review their working procedures and effectiveness regularly in accordance with their respective terms of references. The Board has adopted its code on corporate governance practices (the "Code") and model code for securities transactions by directors of the Company (the "Model Code") with terms no less exacting than required provisions set out respectively in Appendices 14 and 10 of the Listing Rules.

With the exception of the deviation set out below, the Company has complied with the provisions of the Code and the Model Code during the period from the date of listing of the shares of the Company on the Stock Exchange on 13 November 2007 to 31 December 2007 (the "Review Period") and up to the date of the publication of this annual report:

- Code provision A.2.1 of the Code requires that the division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

  During the Review Period, Mr. Zhu Gong Shan is acting as Chairman of the Board and Mr. Sha Hong Qiu is acting as President of the Group which functions as a chief executive officer. The scope of duties as and segregation of responsibilities between the Chairman and the President are set out in the next paragraphs.

  The primary responsibilities of the Chairman are to provide leadership to the Board in setting corporate goals and objectives of the Company, overseeing the performance of the Board in achieving such corporate goals and objectives and taking a lead to ensure that the Board acts in the best interest of the Company and shareholders as a whole.

  The primary responsibilities of the President of the Company are to provide leadership for the management of the Company, taking a lead to implement the Company's strategies and oversee the performance of the management in achieving corporate goals and objectives.

  Although the roles of the Chairman and the President have been clearly established above, it has not yet been set out in writing until it has been written and confirmed by the Board at the meeting held on 10 April 2008.

MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

The Company has established its Model Code in terms no less exacting than the required standard set out in the model code for securities transactions by directors of listed issuers as set out in Appendix 10 of the Listing Rules.

Having made specific inquiries of all Directors, the Company has received their confirmations of compliance with the required standard set out in the Model Code.

BOARD OF DIRECTORS

Our Board includes twelve Directors, comprising seven executive directors, namely Mr. Zhu Gong Shan (Chairman), Mr. Ji Jun, Mr. Sha Hong Qiu (President), Mr. Shu Hua, Mr. Yu Bao Dong, Ms. Sun Wei and Mr. Lau Wai Yip; one non-executive Director, namely Mr. Law Ryan Wing Cheung; and four INEDs, namely Mr. Heng Kwoo Seng, Mr. Qian Zhi Xin, Ir. Dr. Raymond Ho Chung Tai and Mr. Xue Zhong Su.

To the best knowledge of the Company, there is no financial, business, family or other material or relevant relationships among members of the Board or between the Chairman and the President.

The Directors acknowledge their responsibility for preparing the financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and of the profits and cash flows of the Group in accordance with the International Financial Reporting Standards, disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. In preparing the financial statements for the year ended 31 December 2007, the Directors have selected suitable accounting policies and applied them consistently; made judgements and estimates which are reasonable and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group. The Independent Auditor's Report relating to their reporting responsibilities on the financial statements of the Company is set out on pages 77 and 78 of this annual report.

The Board confines itself to making broad objectives and strategic decisions while delegating responsibilities for more detailed consideration to various committees including the Strategic Planning Committee, Audit Committee and Remuneration Committee which are established under the Board. Each of these committees has its respective terms of reference and reports its work to the Board regularly and makes suggestions on the matters under discussion. With delegated authority by the Board, the senior management will implement those strategic plans, policies and business plans conferred by the Board and/or the committees.

The Board confines itself to making broad policy decisions and exercising a number of reserved powers to consider and approve financial statements in interim report and annual report and to consider the dividend policy and dividend amount and to monitor the corporate governance of the Group.

BOARD OF DIRECTORS *(continued)*

The INEDs and non-executive director are appointed for a specific term of office for three years commencing on 13 November 2007 and are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association.

The Chairman of the Company is Mr. Zhu Gong Shan and the President of the Company is Mr. Sha Hong Qiu. The segregation of responsibilities between the Chairman and the President is confirmed in writing at the Board meeting held on 10 April 2008.

The primary responsibilities of the Chairman are to provide leadership to the Board in setting corporate goals and objectives of the Company, overseeing the performance of the Board in achieving such corporate goals and objectives and taking a lead to ensure that the Board acts in the best interest of the Company and shareholders as a whole.

The primary responsibilities of the President of the Company are to provide leadership for the management of the Company, taking a lead to implement the Company's strategy and oversee the performance of the management in achieving corporate goals and objectives.

As the Company was listed on 13 November 2007, no Board meeting was held during the Review Period. During the period from 1 January 2008, there were two Board meetings up to the date of this report.

The INEDs play an important role in corporate governance. Half of the members of the Strategic Planning Committee are INEDs and such Committee is chaired by Ir. Dr. Raymond Ho Chung Tai. In addition, the Audit Committee and Remuneration Committee comprise members of all INEDs. In this connection, the INEDs provide their independent opinions on matters including strategy, policy, corporate performance, accountability, non-competition of controlling shareholders and conflict of interest at various committee meetings and Board meetings.

One-third of the Board members are INEDs and this complies with the requirements under the Listing Rules. The Company has received an annual written confirmation from each of the INEDs of his independence and accordingly, the Board considers that all the INEDs are independent.

All Directors have full and timely access to all relevant information, including reports from the Board Committees and briefing on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice, which will be paid for by the Company.

All Directors have been provided a kit of corporate information and training to assist them in becoming familiar with the management, operations and governance practices of the Group and general compliance regulations under the Listing Rules.

The Board is responsible for the nomination of directors with a view to appointing to the Board suitable individuals with the relevant expertise and experience to enhance the constitution of a strong and diverse Board and to contribute to the functioning of the Board through their continuous participation.

Corporate Governance Report

COMMITTEES UNDER THE BOARD

The Board has established the following committees on 22 October 2007 with defined terms of reference in compliance with the Listing Rules. The terms of reference of the Strategic Planning Committee, Remuneration Committee and the Audit Committee are no less exacting than those applicable terms set out in the Code.

Audit Committee

The Audit Committee comprises three members, all INEDs, namely Mr. Heng Kwoo Seng, Mr. Qian Zhi Xin and Ir. Dr. Raymond Ho Chung Tai. Mr. Heng Kwoo Seng, who is a fellow of the Institute of Chartered Accountants and possesses relevant accounting experience, serves as the Chairman of the Committee.

The primary responsibilities of our Audit Committee include:

- monitoring integrity of the financial statements
- reviewing annual report and interim report
- monitoring and assessing the internal control system and risk management system
- monitoring and assessing the performance of internal control function
- monitoring the independence of an external auditor; and
- monitoring and assessing the performance of external auditor, proposing to the board the appointment or removal of external auditor, and facilitating the communication between external auditor and internal audit function

COMMITTEES UNDER THE BOARD *(continued)*

Audit Committee *(continued)*

The attendance of individual members of the Audit Committee meeting during the Review Period is set out in the following table:

Number of Meetings held **2**

Members of Audit Committee	Number of Meetings Attended
Mr. Heng Kwoo Seng *(note 1)*	2
Mr. Qian Zhi Xin *(note 2)*	2
Ir. Dr. Raymond Ho Chung Tai *(note 3)*	2

Notes:

1. Mr. Heng is an INED and chairman of Audit Committee
2. Mr. Qian is an INED
3. Ir. Dr. Ho is an INED

During the year, the Audit Committee held a meeting with external auditor (excluding members of management of the Company) discussing the audit timetable and the scope of audit work, assessing the independence, professional competence of the external auditor and reviewing the internal control system (including financial, operational and compliance controls) of the Company.

In addition, the Audit Committee also held a meeting with external auditor and the members of management (including the head of internal control function) of the Company discussing the plan for strengthening the internal control system, ensuring the independence of the internal control function of the Company and reviewing various aspects of risk management.

The Audit Committee has reviewed the financial statements, final result announcement, corporate governance report and continuing connected transactions of the Company for the year ended 31 December 2007.

COMMITTEES UNDER THE BOARD *(continued)*

Audit Committee *(continued)*

Apart from the provisions of annual audit services, the Group's external auditor, Deloitte Touche Tohmatsu, was also the reporting accountants of the Company during the IPO process. For the year ended 31 December 2007, the total remuneration in respect of services provided by Deloitte Touche Tohmatsu can be analysed as follows:

Nature of service	**Fees paid** *(HK$'000)*
Audit services	
– Annual audit	3,880
– Reporting accountants in relation to the Listing	20,388
	24,268
Non-audit services	
– Taxation	180
	24,448

Remuneration Committee

The Remuneration Committee comprises three members, all INEDs, namely Ir. Dr. Raymond Ho Chung Tai, Mr. Heng Kwoo Seng, Mr. Qian Zhi Xin, and Ir. Dr. Raymond Ho Chung Tai is the chairman of the committee.

The primary responsibilities of the Remuneration Committee include:

- reviewing and approving performance based remuneration evaluation system
- determining and recommending the remuneration package of directors and senior management to the board for approval
- reviewing, approving and advising the compensation arrangement to directors and senior management

The remuneration package of the executive directors and the senior management is designed to link more to the performance of the Group and the return to its shareholders. This is achieved by way of share option schemes. The remuneration policy of the executive directors of the Company and the senior management of the Group is also overseen by the Remuneration Committee of the Company.

The Company has adopted a pre-IPO share option scheme and a share option scheme as an incentive to Directors and eligible employees, details of the schemes are set out under the sections headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in the Report of the Directors and in note 38 to the consolidated financial statements.

COMMITTEES UNDER THE BOARD *(continued)*

Remuneration Committee *(continued)*

Since the Remuneration Committee was established only in October 2007 and the Company listed in November 2007, no meeting has been held during the Review Period. The Remuneration Committee held a meeting in February 2008 and reviewed the remuneration package of the directors of the Company and the remuneration policy of the Group's senior management. During the review process, no individual director is involved in decisions relating to his own remuneration. Details of remuneration payable to each Director of the Company have been set out in note 14 to the consolidated financial statements.

Strategic Planning Committee

The Strategic Planning Committee comprises six members, namely Ir. Dr. Raymond Ho Chung Tai, Mr. Zhu Gong Shan, Mr. Ji Jun, Mr. Sha Hong Qiu, Mr. Qian Zhi Xin and Mr. Xue Zhong Su, and Ir. Dr. Raymond Ho Chung Tai is the chairman of the committee.

The primary responsibilities of the Strategic Planning Committee include:

- reviewing long-term strategic development plans

- reviewing the annual performance of the Company and assessing implementation and progress of the long-term strategic development plans

- reviewing and recommending to the Board for opportunities of upgrading the facilities, expansion, mergers and acquisitions

- reviewing and advising the regulations on electricity and power industry in the PRC

- reviewing and recommending to the Board with regard to the political, social and economic development in the PRC affecting or potentially affecting the business activities of the Group

- reviewing and monitoring the relationship of the Company with its key strategic joint-venture partners or the relationship building with these partners

INTERNAL CONTROLS

The Directors are responsible for maintaining and reviewing the effectiveness of the Group's internal controls. Appropriate policies and control procedures have been designed and established to ensure that assets are safeguarded against improper use or disposal; relevant rules and regulations are adhered to and complied with; reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements; and key risks that may impact on the Group's performance are appropriately identified and managed. Such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. These procedures can only provide reasonable, and not absolute, assurance against material errors, losses and fraud. The Directors, through the Company's Audit Committee and other sub-committees of the Board, are kept regularly appraised of significant risks that may impact on the Group's performance.

Internal Control Function (the "ICF") was established to provide independent assurance to the Board and management on the adequacy and effectiveness of internal controls for the Group. The head of the ICF directly report to the Audit Committee and the Board. The internal control plan of the Group covers major activities and processes of the Group's business and service units. All audit reports are communicated to the Audit Committee and the Board.

During the year, ICF conducted reviews of the effectiveness of the Group's system of internal controls over financial, operational, compliance controls and risk management functions and reported their findings to the Audit Committee, which then reviewed and reported their findings on the same to the Board. Through the review for the financial year ended 31 December 2007, the Audit Committee and the Board were not aware of any areas of concern that would have significant adverse impact on the Company's financial position or results of operations and considered the internal control systems adequate.

The internal audit and risk management functions are under ICF in accordance with the existing internal control system of the Group. To further enhance the effectiveness of control and independence of review, the Board approved to separate the functions between internal control and internal audit by the establishment of an internal audit department in January 2008. The head of internal audit department directly reports to the Audit Committee of the Company.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

This corporate governance report is included in this first annual report of the Company containing extensive information on finance, business activities and performance of the Group. The Company will maintain on-going dialogue with its shareholders and potential investors through issuance of announcements, circulars and interim reports and annual reports and those information will also be available on the Company's website (www.gcl-poly.com.hk).

Further information about the Shares of the Company are set out in "Information to Investors" to this annual report.

Non-competition Deed

I. AGREEMENT UNDER THE NON-COMPETITION DEED

In order to impose strict restriction to any competition between the controlling shareholders of the Company and the Company, the controlling shareholders of the Company, namely, Highexcel Investments Limited, Mr. Zhu Gong Shan and Mr. Zhu Yu Feng signed with the Company the Non-competition Deed on 27 October 2007.

1. Excluded Business

According to the Non-competition Deed, Nanjing Cogeneration Plant, Longgu Cogeneration Plant, Taicang Harbour Power Plant, Guohua Taicang Power Plant, Lanxi Cogeneration Plant, Guangzhou Yonghe Project and Lianyungang Baoxin Biomass Cogeneration Plant are Excluded Business which would continue to be owned by the controlling Shareholders, in which the Company has been given options for acquiring them ("Option"). The exercise prices of the Option for Nanjing Cogeneration Plant, Longgu Cogeneration Plant, Taicang Harbour Power Plant and Guohua Taicang Power Plant are determined based upon the fair market prices based upon the independent valuation to be determined by an internationally recognised valuer appointed by the Company, while exercise prices of the Option for Lanxi Cogeneration Plant, Guangzhou Yonghe Project and Lianyungang Baoxin Biomass Cogeneration Plant, which are projects under construction or at pre-construction stage, are determined based upon net assets of the project companies or investment costs of the controlling shareholders whichever is lower.

2. Restricted Business

Restricted Business refers to any business which is involved in the construction, development, operation or management of power plants or sales of electricity or heat in the PRC other than the Excluded Business or that carried on by the Group.

Controlling shareholders of the Company having an opportunity to invest in, participate in, engage in, operate or manage any Restricted Business ("Business Opportunity") shall notify the Company about such Business Opportunity in writing. The Company shall have the first right of refusal under the same investment terms to the controlling shareholders. The controlling shareholders shall implement the project only if the Company confirmed that it has no intention to invest, participate in, engage in or operate such Business Opportunity as approved by its Board of Directors including its INEDs. Nevertheless, the Company still have an option with regard to acquisition of the interests of such Business Opportunity at a fair market price negotiated between the parties (which must not be higher than the evaluated net assets of the Business Opportunity or the total investment cost of the controlling shareholders in relation to the Business Opportunity as calculated on the exercise date of the option).

Non-competition Deed

II. RESTRICTED BUSINESS

Since the listing of the Company on 13 November 2007, a total of seven Business Opportunities have arisen and Article 4 of the Non-competition Deed was triggered. They are as follows:

1. Lanxi Cogeneration Plant

Lanxi Cogeneration Plant operating the coal-fired cogeneration project is a Sino-foreign equity joint venture invested by Mr. Zhu Gong Shan in Lanxi, Zhejiang. The scale of the project comprises 2 x 75t/h circulating fluidized bed boilers, 1 x 15 MW extraction condensing turbo generator unit (with 18 MW generator), 1 x 6 MW back pressure turbo generator unit (with 6 MW generator). The total investment of the project is approximately RMB200 million, with a total registered capital of RMB84 million. In particular, Golden Rise Hong Kong Investment Limited (hereinafter referred to as "Golden Rise Ltd"), a wholly-owned subsidiary under the indirect control of Mr. Zhu Gong Shan, has contributed RMB79.8 million (paid in U.S. Dollars converted to Renminbi at spot rate) taking 95%, an independent third party, taking 5%. At present, Lanxi Cogeneration plant has obtained the documents of approval required for the commencement of construction. In addition, the preliminary preparation work has been completed by applying the funds from the registered capital contributed. However, as the unpaid contribution from the other shareholder of RMB2.6 million for the registered capital of Lanxi Cogeneration plant has been delayed substantially, it is unable to secure the bank loan for the construction period and subsequently affects the progress of the entire construction works. The shareholders have proposed, after discussion, to let Golden Rise Ltd. acquire the 5% equity at the price of the registered capital for the other shareholder, that is, RMB4.2 million comprising RMB1.6 million for the consideration of the equity and the make-up payment of RMB2.6 million for the registered capital.

According to the provisions of the Non-competition Deed, Mr. Zhu Gong Shan and Golden Rise Ltd informed the Company by a letter on 20 November 2007 of such Business Opportunity. On 22 November 2007, the strategic investment and development department reported to the Board of Directors in writing for instructions. As the proportion of this acquisition of 5% was too small, coupled with the fact that the Company had already held the Option for the 95% equity of the Lanxi Cogeneration plant held by Golden Rise Ltd. which is an Excluded Business under the Non-competition Deed, a proposal was made to give up this Business Opportunity of acquisition of the 5% interest. On 22 November 2007, the Board of Directors (including all independent non-executive directors), resolved and accepted the proposal of the strategic investment and development department not to proceed further and consent to let Golden Rise Ltd. to proceed with the acquisition.

On 22 November 2007, Golden Rise Ltd. signed the relevant agreement on the acquisition of the 5% interest and offered an option to the Company for acquiring the 5% equity according to the provisions of the Non-competition Deed.

Non-competition Deed

II. RESTRICTED BUSINESS *(continued)*

2. Dongwu Cogeneration Project（東吳熱電項目）

Suzhou Dongwu Cogeneration Ltd.（蘇州東吳熱電有限公司）(hereinafter referred to as "Dongwu Cogeneration"), is a cogeneration company committed in cogeneration production and sales. Phase I construction covers 3 x 130t/h circulating fluidized bed boiler with 2 x 24 MW turbo generator units. The nominal and maximum capacity of steam supply are 200t/h and 240t/h respectively. After its launch of production, Dongwu Cogeneration has been suffering losses due to improper management resulting from low steam selling prices, and high coal consumption. As of 31 October 2007, its accumulated losses have reached RMB52.9 million.

Upon being informed that the shareholders of Dongwu Cogeneration intended to sell their equity, Mr. Zhu Yu Feng planned to acquire 60% of its equity through Shanghai National Energy Investment Co., Ltd. (hereinafter referred to as "National Energy Ltd.") under his control and it is a term of the acquisition that, an independent third party to the Company and Mr. Zhu be granted the right to subscribe within three months at the same price for 25% equity of Dongwu Cogeneration held by National Energy Ltd.. Therefore, if the independent third party exercises the right to subscribe within three months, National Energy Ltd. will only hold 35% of the equity of Dongwu Cogeneration thereafter.

According to the provisions of the Non-competition Deed, Mr. Zhu Yu Feng and National Energy Ltd. informed the Company by letter on 20 November 2007 of the Business Opportunity. On 20 November 2007, the strategic investment and development department informed the Board of Directors in writing for instructions, with the view that Dongwu Cogeneration has been suffering losses since it was founded. As of 30 October 2007, its losses have reached RMB52.9 million. Moreover, according to the Guidance Catalogue for Foreign Investment promulgated by China National Development and Reform Commission and Ministry of Commerce on 30 October 2007, in case if the Company intends to acquire the equity of Dongwu Cogeneration, it is necessary to complete the formalities for registration of changes with the Industrial and Commercial Bureau prior to the specified date of 1 December 2007. In light of the imminent deadline, the Company has had no time to complete the due diligence and it has been proposed to give up this Business Opportunity of acquisition. The Board of Directors (comprising all independent non-executive directors), after study, resolved on 10 January 2008 to accept the proposal of the strategic investment and development department for giving up this business opportunity of acquisition and give consent to let National Energy Ltd. acquire 60% equity of Dongwu Cogeneration with the right to subscribe the 25% option to the independent third party.

On 2 December 2007, National Energy Ltd. considered the Company had deemed to have given up the Business Opportunity because the Company cannot acquire such interests in compliance with the relevant PRC laws within the final deadline of 1 December 2007. Therefore, National Entergy Ltd. signed with the transferor the agreement on the transfer of equity and the supplementary agreement on 3 December 2007 and 4 March 2008 respectively. Pursuant to the Non-competition Deed, the Company was granted an option to acquire the equity interest of Dongwu Cogeneration held by National Energy Ltd. provided always that the exercise of such option will be in compliance which the relevant PRC laws.

Non-competition Deed

II. RESTRICTED BUSINESS *(continued)*

3. Jiema Hydropower Project

Xiaojin Xian Jiema Hydropower Station is a development project of Xiaojin Xian Jitai Power Investment Co., Ltd. (hereinafter referred to as "Jitai Ltd.") and an independent third party. The installed capacity is 20 MW. Founded on 10 December 2003, Jitai Ltd. had an initial registered capital of RMB10 million. On 31 December 2005, the new increase of the registered capital was RMB23.86 million. After the increase, the registered capital was RMB33.86 million. At present, the power station is still under construction. Installation of the generator units is under way and it is expected to launch operation in June 2008.

With the opportunity obtained from the original shareholders of Jitai Ltd. to acquire its 70% equity interests, Mr. Zhu Yu Feng planned to acquire the 70% equity of Jitai Ltd. through Beijing China Energy Saving and Renewable Energy Investment Co., Ltd.（北京中能聯合再生能源投資有限公司）(hereinafter referred to as "Beijing China Energy Ltd.") under his control. The acquisition scheme is: The asset price of the power station is RMB7,500/KW and the total investment is RMB150 million. The transferor shall complete the project construction in the form of turn-key project. In order to acquire the 70% equity interests, Beijing China Energy Ltd. shall contribute capital of RMB42 million comprising RMB23.702 million (paid-up capital RMB33.86 million x 70%) as the consideration for the transfer of equity and the entrusted loan of RMB18.298 million. Jitai Ltd. shall continue to take up the bank loan of RMB50 million for the project and the remaining funds shall be obtained by way of project financing.

According to the provisions of the Non-competition Deed, Mr. Zhu Yu Feng and Beijing China Energy Ltd. informed the Company by letter on 12 December 2007 of this Business Opportunity. On 12 December 2007, the strategic investment and development department informed the Board of Directors in writing for instructions. Their analysis were as follows:

1. As the transferor has requested payment for the transfer of the equity prior to 15 December 2007, the Company, in light of the imminent deadline, has had insufficient time to complete the detailed legal and financial due diligence in terms of the law and the finance.

2. At present, certain legal and financial defects exist in the project. Upon completion of this acquisition by Beijing China Energy Ltd., such defects can be rectified and resolved within two months. The Company may acquire 70% equity of Jitai Ltd. upon the defects have been resolved.

Therefore, the Company was proposed to give up the opportunity of acquisition. The Board of Directors (comprising all independent non-executive directors), after study, resolved on 10 January 2008 to accept the proposal of the strategic investment and development department for giving up this Business Opportunity of acquisition and give consent to let Beijing China Energy Ltd. acquire 70% equity of the Jitai Ltd..

II. RESTRICTED BUSINESS *(continued)*

3. Jiema Hydropower Project *(continued)*

On 13 December 2007, Beijing China Energy Ltd. had confirmation with the Company that as requested by the transferor, the final deadline for signing the agreement was 14 December 2007 and payment for the transfer of equity was prior to 15 December 2007. Therefore, on 14 December 2007, Beijing China Energy Ltd. signed the agreement on the transfer of equity and granted an option to the Company to acquire such interest according to the provisions of the Non-competition Deed.

On 8 April 2008, the Company convened a board meeting, at which all independent non-executive directors were informed that Beijing China Energy Ltd. had signed the agreement on the transfer of equity with the shareholders of Jitai Ltd. before the Company completed the administration process of the Non-competition Deed. While the signing of such agreement did not have any adverse effect on the Company, all Independent non-executive Directors were of the view that controlling shareholders shall strictly follow the provisions of the Non-competition Deed to deal with similar cases in the future and the Controlling Shareholders have so agreed.

4. Xuzhou Incineration Power Project

The Xuzhou Incineration Power Project is under planning stage. Its scale is to process 1,200 tons of refuse daily. Upon obtaining the foregoing business opportunity, Mr. Zhu Gong Shan planned to invest in this incineration power project through his wholly-owned subsidiary Team Profit International Holdings Limited (hereinafter referred to as "Team Profit Ltd.").

According to the provisions of the Non-competition Deed, Mr. Zhu Gong Shan and Team Profit Ltd. informed the Company by letter on 10 January 2008 of this opportunity. On 10 January 2008, the strategic investment and development department informed the Board of Directors in writing for instructions, with the view that as the project was in preliminary planning stage, there were uncertainties of obtaining necessary documents of approval from Jiangsu Provincial Development and Reform Commission for the project. The department proposed to give up the Business Opportunity of getting involved in this project at the current stage, and give the consent to let Team Profit Ltd. to proceed with the work for the examination and approval of the project in the preliminary stage. The Board of Directors (comprising all independent non-executive directors), after study, resolved on 10 January 2008 to accept the proposal of the strategic investment and development department, not to get involved in this project. The exercise of the Right of First Refusal for the investment shall be re-considered upon the documents of approval were obtained.

On 18 January 2008 and 21 February 2008, Team Profit Ltd. signed the Licence Agreement and the Project Zone Agreement with Xuzhou Municipal Government and Xuzhou Economic Development Zone Management Commission respectively. The work for obtaining the examination and approval of the preliminary work of the project is now under way.

Non-competition Deed

II. RESTRICTED BUSINESS *(continued)*

5. Lianyungang Baoxin Biomass Cogeneration Plant

Mr. Zhu Gong Shan, through his wholly-owned Profit Act Limited (hereinafter referred to as "Profit Act Ltd."), obtained the documents of approval from Jiangsu Provincial Development and Reform Commission for the Lianyungang Baoxin Biomass Cogeneration Plant on 24 May 2007. The scale of the project covers 2 x 75t/h straw direct combustion boiler with 2 x 15 MW Extraction condensing turbogenerator units. As the price and supply of the biomass are not stable, uncertainties exist in the cost-effectiveness of the project. However, for the sake of maintaining the good relationship with the local government, Profit Act Ltd. has decided to invest in this project. At the same time, in order to reduce the investment pressure, Profit Act Ltd. has considered to transfer to an independent third party of the Company and itself 70% equity of the project.

According to the provisions of the Non-competition Deed, Mr. Zhu Gong Shan and Profit Act Ltd. informed the Company by letter on 31 January 2008. The strategic investment and development department informed the Board of Directors on 20 February 2008 for instructions, with an analysis of the project with the following risks:

1. *The Risks of Fuel Supply and Prices*

   The straw power plants have launched production in Donghai, Ganyu, and Guannan under Lianyungang area. Therefore, it is most likely that the straw resources in the peripheral districts of Guanyun will experience tight supply and substantial price increase, resulting in adverse effects on the cost-effectiveness of the project.

2. *Strategic Risks*

   Despite the fact that the policies implemented by China encourage the development of renewable energy, the incentive policies related to financials and taxes have not been finalized.

3. *Technical Risks*

   The biomass power plant still have some problems in relation to crushing the straw, front-feeding for the furnace, and the removal of dust and ash.

4. *Risks in the Heat Supply*

   As a cogeneration project, the Lianyungang Baoxin Biomass Cogeneration Project, in the course of power generation, will also take up the role of supplying heat for enterprises in Guanyun Xian Lingang Chemical Industrial Park. In case of insufficient supply of the biomass fuel, the furnace will stop operation. The subsequent stop of heat supply will affect the normal production of enterprises making use of heat. It will lead to disputes with the heat users.

In the opinion of the strategic investment and development department, with the foregoing risks existing in the project, it is not suitable for the Company to invest in the project at the moment. It was proposed to the Company to give up this Business Opportunity of investing in Lianyungang Baoxin Biomass Cogeneration Plant and give consent to have Profit Act Ltd. and an independent third party signed the framework agreement on this project for the transfer.

On 29 February 2008, the Board of Directors (comprising all independent non-executive directors), after study, resolved to accept the proposal for giving its right of first refusal in ocfuiring the 70% equity of the project. In future, reconsideration will be made to acquire the remaining 30% of equity when the prospects of the project income are more positive.

Non-competition Deed

II. RESTRICTED BUSINESS *(continued)*

5. Lianyungang Baoxin Biomass Cogeneration Plant *(continued)*

On 6 March 2008, Profit Act Ltd. signed with an independent third party. the framework agreement for cooperation, with the discussion about the signing of the formal agreement on transfer under way.

6. Lianyungang Wind Power Project

Mr. Zhu Yu Feng, through Guotai Energy Investment Co., Ltd. and Beijing China Energy Saving and Renewable Energy Investment Co., Ltd. under his control, obtained the documents of approval from China National Development and Reform Commission for the Lianyungang Wind Power Project on 26 November 2007. The proportion of the equity for the project is 80%: 20%. The constructed capacity of this project is 99 MW. It is intended to adopt 66 x 1,500 KW wind units made in China, with the average annual on-grid power supply of 0.18 billion KWh. The hours of generating power with equivalent effect at full loading is around 1,800 hours. The examined and approved tariff is RMB0.4877/KWh.

According to the provisions of the Non-competition Deed, Mr. Zhu Yu Feng, Guotai Energy Investment Co., Ltd. and Beijing China Energy Saving and Renewable Energy Investment Co., Ltd. informed the Company by letter on 20 March 2008. The Board of Directors of the Company is studying the possibility whether to take part in the project.

7. Xuzhou 2 x 300 MW Cogeneration Project

According to the imminent demand of the economic and social development in Xuzhou, and in particular, with Xuzhou, as a comparably larger city and economic development zone in Jiangsu Province, going to be a state-grade development zone, 2 x 300 MW cogeneration units will be constructed in this economic development zone in line with the "Eleventh Five" cogeneration planning of Xuzhou to meet the demand for cogeneration. There are many big heat users from the enterprises already constructed and going to be constructed in this economic development zone. It is forecasted that it will meet the requirements of heat supply for the 2 x 300 MW cogeneration units.

In December 2007, Xuzhou Municipal Government invited Mr. Zhu Gong Shan to invest in this project. At present, the project is reported to the development and reform commission in the name of Xuzhou Economic Development Zone and Golden Concord Holdings or its subsidiaries or affiliates shall invest in the construction. Xuzhou Economic Development Zone has set up the start-up team for Xuzhou Economic Development Zone Cogeneration Project, and reported to Xuzhou Municipal Development and Reform Commission on the launch of the preliminary work of Xuzhou Economic Development Zone Cogeneration Project for instructions. The Municipal Development and Reform Commission has reported to the Provincial Development and Reform Commission accordingly. Upon obtaining the foregoing opportunity, Mr. Zhu Gong Shan planned to invest in this cogeneration project through his wholly-owned subsidiary GCL-Poly (Xuzhou) Cogeneration Co., Ltd. (保利協鑫(徐州)熱電有限公司).

According to the provisions of the Non-competition Deed, Mr. Zhu Gong Shan and GCL-Poly (Xuzhou) Cogeneration Co., Ltd. informed the Company by letter on 18 April 2008 to inquire about the intention of the Company to take part in the investment regarding this project. The Board of Directors of the Company is studying the possibility of investment.

Non-competition Deed

III. EXTERNAL INTERESTS OF THE LISTED GROUP

1. Nanjing Cogeneration Plant

As disclosed in the Prospectus, the Company has not acquired Nanjing Cogeneration Plant prior to the listing because Nanjing Cogeneration Plant has not obtained the land-use right certificate and the building ownership certificate. At present, Nanjing Cogeneration Plant has obtained the land-use right certificate. However, the building ownership certificate is still being processed.

2. Longgu Cogeneration Plant

As disclosed in the Prospectus, the Company has not acquired Longgu Cogeneration Plant prior to the listing because Jiangsu Tianneng International Group holding 40% equity of Longgu Cogeneration Plant was being reorganized. At present, Tianneng International Group, the 40% shareholder of the project, has not completed its reorganization yet.

3. Taicang Harbour Power Plant and Guohua Taicang Power Plant

As disclosed in the Prospectus, since Taicang Harbour Power Plant and Guohua Taicang Power Plant are coal fired power plants, their development strategies differ from the development of the Company. Therefore, they have not been included in the Company. The Company will acquire Taicang Harbour Power Plant and Guohua Taicang Power Plant only under the circumstances that the strategic development of both power plants are in line with the Company. At present, the Taicang Harbour power plant is reforming its heat supply. We will consider acquisition after its reform is completed.

4. Lanxi Cogeneration Plant

As disclosed in the Prospectus, the Company will acquire the project upon the launch of production of the completed Lanxi Cogeneration Project. At present, this project is expected to launch production prior to the end of 2008.

5. Guangzhou Yonghe Project（廣州永和項目）

On 23 April 2007, Mr. Zhu Gong Shan, through GCL-Poly Energy (Guangzhou) Co., Ltd.（保利協鑫能源（廣州）有限公司）, obtained the documents of approval from Guangdong Development and Reform Commission for Yonghe gas-steam combined cycle cogeneration project Phase I 1 x 180 MW in Guangzhou Economic and Technical Development Zone. It has been disclosed in the Prospectus. The Company is entitled to the Right of First Refusal for investment in this project. The total investment of the project is expected to reach RMB672 million. The average is RMB3,733/KW. The internal yield is 15%. In case if the entire investment is made by the Company, it requires the contribution of capital amounting to RMB224 million. However, since it was unable to sign the supply contract of the natural gas for the time being, the use of gas by the project has not been guaranteed. Therefore, the Board of Directors is still studying the possibility of formal investment in this project.

Highexcel Investments Limited, Mr. Zhu and Mr. Zhu Yu Feng have provided (i) confirmations to the Company that they have complied with the Non-competition Deed except for a minor deviation as stated under the paragraph II (3) headed "Jiema Hydropower Project" for which case the Independent Board Committee considered that there are no adverse effect on the Group and (ii) all information necessary for the Independent Board Committee to review the compliance with the Non-competition Deed.

The Independent Board Committee has reviewed the exercise and non-exercise of each of the options and rights of first refusal under the Non-competition Deed and concluded that the non-competition undertakings have been complied with except for a minor deviation set out in the preceding paragraph.

Major Investor Relations Activities

INVESTOR RELATIONS

The Company, the Board and the management deeply believe that good investor relations benefit the Company. It is a strategic management activity which enhances the understanding between investors and the Company, improving the level of corporate governance, transparency and strategic credibility as well as creating values for shareholders. Our objectives on investor relations are to maintain strong contacts with investors, to provide them with accurate and timely information, to listen to suggestions and concerns and answer questions raised sincerely.

Shortly before IPO in late 2007, the Company organized an international roadshow to promote the IPO. Led by Chairman of the Board, Mr. Zhu Gong Shan, the management team started from Hong Kong and visited Singapore, London, New York and Boston, making extensive contacts with analysts, global fund managers and the media.

During the roadshow, the management had one-to-one meetings with 76 institutional investors. A total of 9 breakfast and luncheon meetings were arranged. Investor and press conferences were held in both Hong Kong and Singapore.

The Company's management made comprehensive and in-depth introductions to the investors during the roadshow about investment highlights of the Company, the competitive advantage of being a co-generation power plant operator, the Company's business and financial conditions and the future development plans.

The IPO was a great success as evident by the subscription of approximately 905 times of the Hong Kong offer shares. The shares offered under the international offering have also been very significantly oversubscribed. The net proceeds of the offering were approximately HK$1,042.0 million. The success of the initial public offering has paved the way for establishing relationship between the Company and the investors. Through frank and open communications, the Company has built up strong contacts with investors and analysts and got their ideas and suggestions. This greatly helps further improve our corporate governance.

Going forward, our management will strive to maintain effective communication with shareholders and investors by way of road-shows, result announcement presentations, one-on-one investor meetings, teleconferences and plant visits.

In the first three months of 2008, the management already held thirteen one-to-one meetings to introduce our Company to investors both in Hong Kong and in the PRC. Moreover, in late January 2008, the Company arranged plant visit for investors and media to two of our power plants, namely Taicang Incineration Plant and Suzhou Cogeneration Plant, as well as two power plants that the Company has an option to acquire under the Non-competition Deed, namely Taicang Harbour Power Plant and Nanjing Cogeneration Plant.

Report of the Directors

The Directors have pleasure in presenting their report and the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2007. This is the first annual report after the IPO and listing of the Company's Shares on the Stock Exchange.

CORPORATE REORGANISATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 12 July 2006. Pursuant to a reorganisation to rationalise the structure of the Group in preparation for the public listing of the Company's Shares on the Stock Exchange, the Company became the holding company of the subsidiaries of the Group. Details of reorganisation are set out in the Company's Prospectus dated 31 October 2007. The Shares of the Company were listed on the main board of the Stock Exchange on 13 November 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Group are investment in, development of, operation and management of cogeneration and power plants in the PRC. The particulars of the Company's principal subsidiaries and associates are set out respectively in notes 43 and 19 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated financial statements on pages 79 to 157.

The directors do not recommend the payment of any dividend for the year ended 31 December 2007 (2006: Nil).

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last four financial years is set out on page 2.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the issued share capital of the Company during the year are set out in note 32 to the consolidated financial statements.

CONVERTIBLE NOTE

On 7 November 2006, the Company issued a convertible note with an aggregate principal amount of US$88,000,000 and upon IPO on 13 November 2007, the convertible portion of 60% was converted into Shares of the Company and the non-convertible portion of 40% was redeemed with accrued interest on the note. Details of movements during the year in the convertible note are set out in note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2007 amounted to HK$1,879,000,000 (2006: HK$5,470,000).

Movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity.

BANK BORROWINGS

Particulars of the Group's bank borrowings are set out in note 29 to the consolidated financial statements.

DIRECTORS

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

Executive Directors

Zhu Gong Shan *(Chairman)*	(appointed on 12 July 2006)
Ji Jun	(appointed on 7 November 2006)
Sha Hong Qiu *(President)*	(appointed on 7 November 2006)
Shu Hua	(appointed on 22 October 2007)
Yu Bao Dong	(appointed on 7 November 2006)
Sun Wei	(appointed on 7 November 2006, resigned on 10 July 2007 and re-appointed on 22 October 2007)
Lau Wai Yip	(appointed on 10 July 2007)

Non-Executive Director

Law Ryan Wing Cheung	(appointed on 7 November 2006)

Independent non-executive Directors

Mr. Qian Zhi Xin	(appointed on 10 July 2007)
Mr. Heng Kwoo Seng	(appointed on 10 July 2007)
Ir. Dr. Raymond Ho Chung Tai	(appointed on 5 September 2007)
Mr. Xue Zhong Su	(appointed on 22 October 2007)

In accordance with Articles 86(3), 87(1) and (2) of the Articles of Association of the Company, all the Directors will retire at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

The Company has received from each of its INEDs an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules on the Stock Exchange. The Company considers that all the INEDs are independent.

Report of the Directors

DIRECTORS' SERVICES CONTRACTS

Each of the Directors has entered into a service contract with the Company for an initial fixed term of three years and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire after the fixed term.

No director proposed for re-election at the forthcoming annual general meeting has entered into any service agreements with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under the section headed "CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS" in this report of the Directors, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party, and which subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the Directors and chief executive of the Company and their associates had the following interests and short positions in the Shares, underlying shares and debentures of the Company and its associated corporations ("Associated Corporations") (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules:

(i) Interest in Long Positions ("L") and Short Positions ("S") of Ordinary Shares of the Company

Name of Directors/ Chief Executive	Number of Ordinary Shares Corporate interests	Number of Ordinary Shares Personal interest	Number of underlying shares held under equity derivates	Total	Percentage of issued share capital
Zhu Gong Shan	389,220,000 (L) 42,871,557 (S) *(note 1(i) & (ii))*	–	–	389,220,000 (L) 42,871,557 (S)	40.03% 4.41%
Ji Jun	–	–	1,500,000 *(note 2)*	1,500,000	0.15%
Sha Hong Qiu	–	–	1,680,000 *(note 2)*	1,680,000	0.17%
Shu Hua	–	–	1,500,000 *(note 2)*	1,500,000	0.15%
Yu Bao Dong	–	–	1,500,000 *(note 2)*	1,500,000	0.15%
Sun Wei	–	–	1,500,000 *(note 2)*	1,500,000	0.15%
Lau Wai Yip	–	–	1,500,000 *(note 2)*	1,500,000	0.15%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

(i) Interest in Long Positions ("L") and Short Positions ("S") of Ordinary Shares of the Company *(continued)*

Notes:

1. (i) Mr. Zhu Gong Shan is the legal and beneficial owner of the entire issued share capital of Highexcel Investments Limited ("HIL") and is deemed to be interested in the shares held by HIL.

   (ii) The shares are held by HIL under a short position and has to be transferred to CMIC-NCHK Energy Holdings Limited six months after 13 November 2007, the date that the Shares of the Company was listed on the Stock Exchange, pursuant to the Poly Acquisition Agreement as disclosed in the Company's Prospectus.

2. These interests represented the interests in underlying shares in respect of share options granted by the Company to these directors and chief executive as beneficial owners, the details of which are set out in the section headed "PRE-IPO SHARE OPTION SCHEME" of this report.

Save as disclosed above, as at 31 December 2007, none of the Directors and chief executives had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been entered into in the register that was required to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") on 22 October 2007 with effect from 13 November 2007. The purpose of the Pre-IPO Share Option Scheme is to give our employees an opportunity to have a personal stake in the Company and to motivate our employees to optimize their performance and efficiency, and to retain our employees whose contribution are important to the long-term growth and profitability of the Group. The Pre-IPO Option Scheme ended on 13 November 2007, being the date on which dealings in the Shares of the Company commenced on the Stock Exchange and no further options under the Pre-IPO Share Option Scheme can be granted after that date. The provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect for a period of 10 years from the Listing Date.

As at 31 December 2007, a total of 31,260,000 Shares (representing 3.21% of the number of existing issued Shares of the Company) may be issued by the Company upon exercise of all the options which had been granted under the Pre-IPO Share Option Scheme.

Report of the Directors

PRE-IPO SHARE OPTION SCHEME *(continued)*

Details of the Pre-IPO Share Options outstanding and movements during the year are as follows:

				Number of options			
Name or category of participant	**Date of grant**	**Exercise period**	**Exercise price** *(HK$)*	**Lapsed or cancelled during the year**	**Exercised during the year**	**Outstanding as at 01.01.2007**	**Outstanding as at 31.12.2007**
Directors/Chief Executive							
Ji Jun	13.11.2007	13.11.2010 to 12.11.2017	4.10	–	–	–	300,000
		13.11.2011 to 12.11.2017	4.10				450,000
		13.11.2012 to 12.11.2017	4.10				750,000
Sha Hong Qiu	13.11.2007	13.11.2010 to 12.11.2017	4.10	–	–	–	336,000
		13.11.2011 to 12.11.2017	4.10				504,000
		13.11.2012 to 12.11.2017	4.10				840,000
Shu Hua	13.11.2007	13.11.2010 to 12.11.2017	4.10	–	–	–	300,000
		13.11.2011 to 12.11.2017	4.10				450,000
		13.11.2012 to 12.11.2017	4.10				750,000
Yu Bao Dong	13.11.2007	13.11.2010 to 12.11.2017	4.10	–	–	–	300,000
		13.11.2011 to 12.11.2017	4.10				450,000
		13.11.2012 to 12.11.2017	4.10				750,000
Sun Wei	13.11.2007	13.11.2010 to 12.11.2017	4.10	–	–	–	300,000
		13.11.2011 to 12.11.2017	4.10				450,000
		13.11.2012 to 12.11.2017	4.10				750,000

PRE-IPO SHARE OPTION SCHEME *(continued)*

Name or category of participant	Date of grant	Exercise period	Exercise price *(HK$)*	Lapsed or cancelled during the year	Exercised during the year	Outstanding as at 01.01.2007	Outstanding as at 31.12.2007
				Number of options			
Lau Wai Yip	13.11.2007	13.11.2010 to 12.11.2017	4.10	–	–	–	300,000
		13.11.2011 to 12.11.2017	4.10				450,000
		13.11.2012 to 12.11.2017	4.10				750,000
Non-director employees (In aggregate)	13.11.2007	13.11.2010 to 12.11.2017	4.10	–	–	–	4,416,000
		13.11.2011 to 12.11.2017	4.10				6,624,000
		13.11.2012 to 12.11.2017	4.10				11,040,000
Total							**31,260,000**

Note: The consideration for the Pre-IPO Share Option granted to each participant was HK$1.00.

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme (the "Share Option Scheme") on 22 October 2007 which became effective on 13 November 2007.

The purpose of the Share Option Scheme is to motivate personnel to optimize their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such personnel who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of executive of our Company, to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

The Share Option Scheme shall be valid and effective for a period of 10 years from 13 November 2007, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme when aggregated with the number of shares issuable under the Pre-IPO Share Option Scheme shall not, in aggregate, exceed 97,241,948, being 10% of the shares of the Company in issue immediately after the IPO on the Listing Date which is the effective date of such scheme.

Report of the Directors

SHARE OPTION SCHEME *(continued)*

The maximum entitlement for any eligible person under the Share Option Scheme shall not in any 12-month period up to the date of grant exceed 1% of the issued share capital of the Company from time to time. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting. The period within which an option may be exercised under the Share Option Scheme or the Pre-IPO Share Option Scheme will be determined by the Board at its absolute discretion, save that no option may be exercised later than 10 years from the date of grant of the particular option. Under the Share Option Scheme, the exercise price in relation to each option shall be determined by the Board at its absolute discretion, but in any event shall not be less than highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of such option; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of such option; and (iii) the nominal value of a Share on the date of grant of such option.

Since the Share Option Scheme become effective, no share options were granted, exercised or cancelled by the Company during the year and there were no outstanding share options under the Share Option Scheme as at 31 December 2007.

Save as disclosed above, during the year, neither the Company nor any of its subsidiaries is a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities of, the Company or any Associated Corporation and none of the Directors had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 December 2007, the Directors were not aware of any other persons (other than a Director or chief executive, whose interests are disclosed in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above) who had an interest or short position in the Shares or underlying shares of the Company as recorded in the register kept pursuant to Section 336 of the SFO:

Name	*Note*	Capacity/ nature of interest	Number of shares held	Long/Short position	Percentage of of issued share capital
Highexcel Investments Limited		Beneficial owner	389,220,000	Long	40.03
	1	Beneficial owner	42,871,557	Short	4.41
MS China 3 Limited	*2*	Beneficial owner	160,080,000	Long	16.46
Morgan Stanley Emerging Markets Inc.	*2*	Interest of controlled corporation	160,080,000	Long	16.46
Morgan Stanley	*2,3*	Interest of controlled corporation	160,608,000	Long	16.52
Poly (Hong Kong) Investments Limited	*4*	Interest of controlled corporation	91,919,487	Long	9.45
Baring Asset Management Limited		Investment Manager	59,235,000	Long	6.09
Northern Trust Fiduciary Services (Ireland) Limited	*5*	Trustee	58,394,000	Long	6.01

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS *(continued)*

Notes:

1. The shares are held by HIL under a short position and has to be transferred to CMIC-NCHK Energy Holdings Limited six months after 13 November 2007, the date that the Shares of the Company was listed on the Stock Exchange, pursuant to the Poly Acquisition Agreement as disclosed in the Company's Prospectus.

2. MS China 3 Limited is a wholly-owned subsidiary of Morgan Stanley Emerging Markets Inc. which in turn is wholly-owned by Morgan Stanley. Morgan Stanley Emerging Markets Inc. and Morgan Stanley are therefore deemed to be interested in 160,080,000 Shares held by MS China 3 Limited.

3. The interest of Morgan Stanley in the Company is also held through:

   (a) Morgan Stanley & Co. Inc. which held 25,000 Shares and is a wholly-owned subsidiary of Morgan Stanley. Morgan Stanley is therefore deemed to be interested in 25,000 Shares;

   (b) Morgan Stanley & Co. International plc. which held 503,000 Shares and is wholly-owned by Morgan Stanley UK Group. Morgan Stanley UK Group is wholly-owned by Morgan Stanley Group (Europe) which in turn is held as to 98.3% by Morgan Stanley International Limited. Morgan Stanley International Limited is an indirect wholly-owned subsidiary of Morgan Stanley. Accordingly, Morgan Stanley is deemed to be interested in the 503,000 Shares held by Morgan Stanley & Co. International plc.

4. The interest of Poly (Hong Kong) Investments Limited is held through its indirect wholly-owned subsidiary, CMIC-NCHK Energy Holdings Limited.

5. Northern Trust Fiduciary Services (Ireland) Limited held the shares as trustee for Baring Hong Kong China Fund.

6. The total number of ordinary shares in issue as at 31 December 2007 was 972,419,487.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

(A) Connected Transactions

(1) Acquisitions during the year

As disclosed in the Prospectus, the Company has entered into various one-off agreements with Mr. Zhu, a substantial shareholder and Director of the Company and his associates. Those transactions have been completed before the date of this annual report as disclosed in the announcements of the Company dated 11 January 2008 and 1 April 2008 respectively and such progress has been reviewed by Independent Board Committee of the Company. Particulars of those transactions are set out below:

(a) The Puyuan Cogeneration Plant

A share transfer agreement dated 22 October 2007 was entered into between Guotai Energy Investment Co., Ltd ("Guotai") and Shanghai Guoneng Investment Co Ltd ("Guoneng"), both being connected person under the Listing Rules, and a wholly owned subsidiary of the Group pursuant to which Guotai and Guoneng agreed to transfer their respective 50% and 25% equity interest in the Puyuan Cogeneration Plant to the Group at a consideration of RMB46,012,100 and RMB23,006,050 respectively.

Another share transfer agreement dated 26 October 2007 was entered into between Mr. Zhu and a wholly owned subsidiary of the Group relating to the acquisition of 100% equity interest in Full Jumbo Limited ("Full Jumbo") and the assignment of the shareholder's loan Full Jumbo owes to Mr. Zhu, for a total consideration of HK$22,024,329. Full Jumbo owns a 25% equity interest in Puyuan Cogeneration Plant. The principal activities of Puyuan Cogeneration Plant is the operation of a cogeneration plant in Puyuan, Zhejiang, the PRC.

Following the completion of the above two agreements, Puyuan Cogeneration Plant has become an indirect wholly-owned subsidiary of the Company in December 2007.

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

(A) Connected Transactions *(continued)*

(1) Acquisitions during the year (continued)

(b) Suzhou Fuel Company

Suzhou Fuel Company was indirectly wholly-owned by Oftenrich Investments Limited (the "Oftenrich"). Oftenrich was wholly and beneficially owned by Mr. Zhu. Its principal activities is coal trading.

A sale and purchase agreement dated 22 October 2007 was entered into between Mr. Zhu, a wholly-owned subsidiary of the Company pursuant to which Mr. Zhu agreed to transfer 100% equity interests in Oftenrich and the assignment of a shareholder's loan Oftenrich owes to Mr. Zhu, for a total consideration of HK$14,062,059.

Following the completion of the agreement during the year, the Group owns the entire equity interest in Suzhou Fuel Company through Oftenrich. Oftenrich and Suzhou Fuel Company have become wholly-owned subsidiaries of the Company in December 2007.

(c) The Xinneng Cogeneration Plant

The Xinneng Cogeneration Plant is a wholly-owned subsidiary of Winpak Investment Limited ("Winpak"), which was in turn a wholly-owned subsidiary of Build Result Investments Limited ("Build Result"), which is in turn a company wholly and beneficially owned by Mr. Zhu. The principal activities of Xinneng Cogeneration Plant is the operation of a cogeneration plant in Lianyungang, Jiangsu, the PRC.

A sale and purchase agreement dated 26 October 2007 was entered into between Build Result and a wholly owned subsidiary of the Group pursuant to which Build Result agreed to transfer its entire interest in Winpak and the assignment of a shareholder's loan Winpak owed to Build Result, for a total consideration of HK$48,359,993.

Accordingly, following the completion of the agreement in December 2007, the Group owns the entire equity interest in Xineng Cogeneration Plant through Winpak.

(d) The Funing Cogeneration Plant

The Funing Cogeneration Plant is held as to 30.6% by Golden Concord Power (Funing) Limited ("GCP Funning"), a company wholly and beneficially owned by Mr. Zhu and as to 29.4% by Poly High Praise Developments Limited ("Poly High Praise") which, prior to the IPO, was an indirect wholly owned subsidiary of Poly (Hong Kong) Investments Limited, and the remaining 40.0% by other independent third parties to the Group and Mr. Zhu. The principal activities of Funing Cogeneration Plant is the operation of a cogeneration plant in Funing, Jiangsu, the PRC.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

(A) Connected Transactions *(continued)*

(1) Acquisitions during the year (continued)

(d) The Funing Cogeneration Plant *(continued)*

Pursuant to the Poly Acquisition Agreement (as defined in the Prospectus), the Group has acquired 29.4% interest in the Funing Cogeneration Plant by acquisition of the whole equity interest in Poly High Praise effective 13 November 2007.

A sale and purchase agreement dated 22 October 2007 was entered into between Golden Concord Holdings Limited ("GCL") a company wholly owned by Mr. Zhu and a wholly owned subsidiary of the Group and GCP Funing pursuant to which GCL agreed to transfer its entire interests in GCP Funing and the assignment of a shareholder's loan GCP Funing owed to GCL for a total consideration of HK$28,031,865 which was completed on 27 November 2007.

Following the completion of the two agreements mentioned above during the year, the company owns an aggregate effective interest of 60.0% in the Funning Cogeneration Plant, including the 29.4% interest acquired from Poly (Hong Kong) Investments Limited upon Listing.

(2) Subsequent acquisitions and transactions

(a) China Resources Beijing Cogeneration Plant

A share transfer agreement dated 22 October 2007 (the "Agreement No.1") was entered into between Guotai, which is indirectly owned by Mr. Zhu Yu Feng, the son of Mr. Zhu and a wholly-owned subsidiary of the Company, pursuant to which Guotai agreed to transfer its 49% equity interest in China Resources Beijing Cogeneration Plant to the Group for a total consideration of RMB145,788,475. The principal activities of China Resources Beijing Cogeneration Plant is the operation of a cogeneration plant in Beijing. The transfer of the interest was completed in January 2008.

(b) Huitengliang Project Company

Huitengliang Project Company was wholly-owned by Guotai. The principal activities of Huitengliang Project Company is the development and operation of a wind farm power project in Inner Mongolia, the PRC. A sale and purchase agreement dated 22 October 2007 was entered into between Guotai and a wholly owned subsidiary of the Group pursuant to which Guotai would transfer its entire interest in Huitengliang Project Company for a total consideration of RMB20,014,398. The acquisition of Huitengliang Project Company was completed on 28 March 2008.

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

(A) Connected Transactions *(continued)*

(2) Subsequent acquisitions and transactions (continued)

(c) Baoxin Project Company

In January 2008, a written notice was received from Mr. Zhu and Profit Act Limited, a company then wholly and beneficially owned by Mr. Zhu, informing their intention to transfer 70% equity interest in the Baoxin Project Company to an independent third party and seeks the Company's decision whether to exercise the option and right of first refusal granted to the Company under the Non-competition Deed to acquire the 70% equity interest in Baoxin Project Company.

Having considered various reasons, the INEDs consider that it would not be in the best interest of the Company and the shareholders as a whole to exercise the option and right of first refusal on the grounds that the Baoxin Project Company cannot secure a stable source of income to the Group and therefore it cannot enhance the profitability of the Group in the foreseeable future and that such non-exercise of the option and the right of the first refusal is based on normal commercial terms.

The non-exercise by the Company of such option granted by the Controlling Shareholder and right of first refusal is a connected transaction under the Listing Rules, details of which were announced by the Company on 3 March 2008.

(B) Continuing Connected Transactions

The Board, including the independent non-executive directors of the Company, has reviewed and confirmed that the continuing connected transactions for the year ended 31 December 2007 were entered into:

i. in the ordinary course of the business of the Group;

ii. either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third party; and

iii. in accordance with the relevant written agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions and the auditor has reported the factual findings on these procedures to the Board.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

(B) Continuing Connected Transactions *(continued)*

The auditor of the Company have confirmed to the Board in writing in respect of the continuing connected transactions set out below for the year ended 31 December 2007:

(a) were approved by the Board;

(b) were entered into in accordance with the relevant agreement governing the transactions; and

(c) did not exceed the relevant cap amount for the financial year ended 31 December 2007 as set out in the Prospectus.

Details of the continuing connected transactions of the Company for the year ended 31 December 2007 are as follows:

(1) Procurement of office services in Hong Kong

An agreement dated 22 October 2007 (the "Office Services Agreement") was entered into between Golden Concord Holdings Limited ("GCL (Hong Kong)"), a company wholly owned by Mr. Zhu, and the Company relating to the procurement of office services to the Company by GCL (Hong Kong) for a term commencing from 1 May 2007 to 31 December 2009. Such services include a licence to use certain area of the premises at Suites 3601-3604, Two Exchange Square, 8 Connaught Place, Hong Kong, access to facilities and furniture therein and administrative assistance services including air-conditioning, office cleaning and office management services provided by GCL (Hong Kong) to the Company.

As disclosed in the Prospectus, the annual cap for the financial year ended 31 December 2007 is HK$2,050,000. The aggregate value of the procurement of office services in Hong Kong for the year ended 31 December 2007 was approximately HK$1,369,000.

(2) Lease of office premises in Shanghai

A lease agreement took effect from 1 January 2007 (as amended by a supplemental lease agreement dated 15 August 2007) (collectively the "Shanghai Office Lease") entered into between 上海越源機械成套設備有限公司 (Shanghai Yueyuan Machinery and Equipment Co., Ltd.*) (as landlord) in which Mr. Zhu Yu Feng (an associate of Mr. Zhu under the Listing Rules) owns 60% equity interest and the Management Company (as tenant) relating to the lease of office premises located at 9th Floor, 360 Pudong South Road, Shanghai with a lease area of approximately 1,434.14 sq.m. to the tenant for a term of three years from 1 January 2007 to 31 December 2009.

As disclosed in the Prospectus, the annual cap for the rent payable for the financial year ended 31 December 2007 is RMB3,000,000. The aggregate rent paid for the year ended 31 December 2007 was approximately RMB2,827,000.

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

(B) Continuing Connected Transactions *(continued)*

(3) Provision of entrusted management services

Taicang Harbour Power Plant is a company in which Mr. Zhu and his associate has an aggregate equity interest of 37% (defined in the Prospectus) but subject to an acquisition option granted to the Company under the Non-competition Deed.

In order to enhance the Group's benefits from economies of scale and centralized management system and to ensure the Group will have sufficient level of control and understanding over the affairs of Taicang Harbour Power Plant before the option to acquire the same is exercised by the Company, pursuant to an agreement dated 28 December 2006 and a supplemental agreement dated 15 August 2007 entered into between Suzhou Chonggao Power Investment Co., Ltd.) ("Chonggao") and the Management Company (collectively the "Entrusted Management Agreement"), Chonggao, in its capacity as an equity interest holder of the Taicang Harbour Power Plant, entrusted to the Management Company to provide certain services on its behalf (the "Entrusted Management Services"), including: (i) exercising rights as an equity interest holder of the Taicang Harbour Power Plant (but not including the rights to receiving dividend and disposing the equity interest in the Taicang Harbour Power Plant) for a fixed term of two years from 1 January 2007 to 31 December 2008. Such equity interest holder's rights entrusted include, among others, attending and voting at general meetings, nomination of representative(s) to the board of directors of the Taicang Harbour Power Plant; (ii) the high-level supervision of the operation of the Taicang Harbour Power Plant such as evaluation of the performance of the management team of the Taicang Harbour Power Plant, supervision of financial management and overseeing compliance with legal and environmental protection regulations.

As disclosed in the Prospectus, the annual cap of the fee payable for the financial year ended 31 December 2007 is RMB5,600,000. The aggregate fee paid under the Entrusted Management Services for the year ended 31 December 2007 was RMB5,600,000.

(4) Provision of operation and management services

Nanjing Cogeneration Plant and Longgu Generation Plant, are indirectly owned by Mr. Zhu as to their equity interests of 100% and 59% respectively.

The Management Company has entered into (i) an agreement dated 1 January 2007 (as amended by a supplemental lease agreement dated 15 August 2007) with Nanjing Cogeneration Plant and (ii) an agreement dated 1 January 2007 with Longgu Power Plant relating to the provision of operation and management services ("Operation and Management Services") provided by the Management Company to Nanjing Cogeneration Plant and Longgu Power Plant. The scope of the Operation and Management Services consists of two major components, namely (i) operation services; and (ii) management services. Operation services include, among others, coordination in the following areas: competitive bidding strategy, heat and electricity pricing, coal supply, purchase of production accessories, equipment maintenance, capital management, technical training and transfer of technology, utilization of professional services specific to the power industry and other general professional services. Management services include, among others, providing guidance in the following areas: operational target management, establishment of performance assessment system, corporate planning and budgeting, corporate asset management, cost management and financial management, corporate safety target management, production technology management, human resources management, IT management and reporting system management.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

(B) Continuing Connected Transactions *(continued)*

(4) Provision of operation and management services (continued)

The fee and the annual caps of Operation and Management Services are set out below:

	Aggregate fee for the year ended 31 December 2007 *(RMB)*	Annual cap for the year ended 31 December 2007 *(RMB)*
Nanjing Cogeneration Plant	**2,400,000**	**2,400,000**
Longgu Power Plant	**2,400,000**	**2,400,000**

(5) Lease of assets

Pursuant to a lease agreement dated 2 September 2005 and entered into between Suzhou Industrial Park Thermoelectricity Co., Ltd. 蘇州工業園區熱電有限公司 ("Suzhou Industrial Park Thermoelectricity"), a state-owned enterprise, and the Suzhou Cogeneration Plant, as supplemented by an agreement dated 15 September 2005 among Suzhou Industrial Park Thermoelectricity, the Suzhou Cogeneration Plant and 蘇州工業園區市政公用發展集團有限公司 (Suzhou Industrial Park Municipal Utilities Development Group Co., Ltd*) ("Suzhou Industrial Park Utilities Development"), being a substantial shareholder of Suzhou Cogeneration Plant under the Listing Rules, and further supplemented by an agreement dated 2 September 2007 between Suzhou Industrial Park Utilities Development as lessor and Suzhou Cogeneration Plant as lessee, Suzhou Industrial Park Utilities Development leased certain assets with an aggregate value of approximately RMB60,700,000 as determined by an independent valuer, comprising, among other things, certain buildings and related facilities, equipment and machineries (the "Leased Assets") to the Suzhou Cogeneration Plant for a term of one year from 15 September 2007 to 14 September 2008.

Suzhou Industrial Park Utilities Development is interested in 30% of the equity interest in Suzhou Cogeneration Plant.

As disclosed in the Prospectus, the annual cap of the fee payable for the financial year ended 31 December 2007 is RMB4,000,000. The aggregate value of the fee paid for the year ended 31 December 2007 was RMB4,000,000.

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

(B) Continuing Connected Transactions *(continued)*

(6) Procurement of coal

(a) Suzhou Fuel Company

As disclosed in the Prospectus, Suzhou Fuel Company has entered into various agreements with the members of the Group and certain other parties in relation to the provision of coal supply services by Suzhou Fuel Company.

Prior to the completion of the Group's acquisition of Suzhou Fuel Company in December 2007, Suzhou Fuel Company was wholly owned by Mr. Zhu and hence purchase of coal by the Group from it constituted connected transaction under the Listing Rules.

As disclosed in the Prospectus, the annual cap for the year ended 31 December 2007 is RMB885,294,000. The aggregate value of the coal supply for the year ended 31 December 2007 was approximately RMB714,414,000.

(b) 江蘇天能集團公司 (Jiangsu Natural Power Group Co. Ltd.*) ("Jiangsu Natural Power")

Jiangsu Natural Power owns 24% equity interest in Xuzhou Cogeneration Plant and hence becomes a connected person of the Group under the Listing Rules after the Poly Acquisitions upon Listing. Each of (i) Fengxian Cogeneration Plant, (ii) Peixian Cogeneration Plant and (iii) Xuzhou Cogeneration Plant, have entered into coal supply agreements all dated 18 September 2004 as supplemented by three agreements all dated 11 October 2007 (collectively, the "Jiangsu Natural Power Coal Supply Agreements") in relation to supply of coal by Jiangsu Natural Power to each of the three plants.

The aggregate value and the annual caps of the coal purchase are respectively RMB85,000,000 and RMB65,240,000.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Directors' Interests as a director of Competing Business

A. The details of the Directors' interests as at 31 December 2007, in competing business as a director of the company conducting such business are set out below.

Names of the Company's Directors	Name of company in which the relevant Director is also a director	Principal activities of the competing company	Status of the competing company
1. Mr. Lau Wai Yip	Huitengliang Project Company	Development and operation of a wind farm project in Inner Mongolia	Entire equity interest has been acquired by the Group in March 2008.
2. Mr. Zhu Gong Shan Ms. Sun Wei	China Resources Beijing Cogeneration Plant	Operation of a cogeneration plant in Beijing	The Group completed the acquisition of a 49% equity interest in the Company in January 2008 from the Controlling Shareholder, Mr. Zhu.
3. Mr. Lau Wai Yip	Jitai Ltd.	Operation of a hydro power plant in Sichuan	An associate of Mr. Zhu owns an equity interest of 70%.
4. Mr. Zhu Gong Shan	Taicang Harbour Power Plant	Operation of a cogeneration plant in Taicang, Jiangsu, the PRC	Mr. Zhu and his associate owns an aggregate interest of 37% which is subject to an arrangement under the Non-competition Deed pursuant to which the Group has an option right, amongst others, to purchase such interest.

B. Save as disclosed in the above section A, Mr. Zhu and/or his associates have interests in certain other competing business which have been set out in the section headed "Non-competition Deed" of this annual report.

Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESS *(continued)*

Directors' Interests as a director of Competing Business *(continued)*

C. As set out in the Prospectus, our Board comprises twelve Directors, all of whom, except Mr. Zhu who is director of the Beijing Cogeneration Plant and the Taicang Harbour Power Plant, will not serve any executive or management roles in the Excluded Companies (including the Nanjing Cogeneration Plant, the Longgu Cogeneration Plant, the Taicang Harbour Power Plant, the Guohua Taicang Power Plant, Lanxi Cogeneration Plant, the Guangzhou Yonghe Project and the Lianyungang Baoxin Biomass Cogeneration Plant) following Listing. Among these twelve Directors, four are independent non-executive Directors and one is a non-executive Director.

Mr. Zhu holds directorships in the Taicang Harbour Power Plant which is one of the Excluded Companies, but he is not involved in the day to day operations of the Excluded Businesses. Mr. Zhu spends the majority of his time and attention on the management of our Group. His daily involvement in the Company's business and operations includes, amongst other duties, determining the development strategy of the Group, evaluating investment decisions in relation to new projects, acquisition targets and expansion projects, liaison with various governmental and regulatory authorities, liaison with shareholders of the Company and Subsidiaries and setting the annual development plans for the management of the Group and performing assessment on the management of the Group. Further, except as disclosed below, none of our senior management, being our full-time employees, have senior executive positions in the daily management and operation of any of the Excluded Companies and all major management decisions will be made by our Board of Directors as a whole, including our independent non-executive Directors, and not at the sole discretion of Mr. Zhu. Our daily operations will be managed by our senior management team, all the members of which are independent from those of the Excluded Business upon Listing. Therefore, notwithstanding the fact that Mr. Zhu will hold dual positions in our Company and in the Excluded Business, our Directors are of the view that we will be able to operate independently of the Excluded Companies.

Each Director is aware of his fiduciary duties that as a director of the Company he is required to, among other things, act for the benefit and in the best interest of the Company and do not allow any conflict between his duties as a Director and his personal interests. The decision-making mechanism of our Board of Directors set out in our Articles of Association also includes provisions to avoid conflicts of interest by providing, among other things, that (i) each Director will be entitled to one vote at our meeting of Board of Directors and decisions of our Board of Directors shall be passed by majority vote and (ii) in the event of a conflict of interest, the relevant Director(s) shall abstain from voting. As such, if a conflict of interest situation arises in respect of Mr. Zhu, he will be required to abstain from voting and hence will be unable to participate in the decision making of our Board on matters in which he may be interested. Further, following the listing of our Shares on the Stock Exchange, our Board will be required to comply with provisions under the Listing Rules and certain matters, such as connected transactions, are required to be reviewed by our independent non-executive Directors. Our Directors are of the view that the significant proportion of independent non-executive Directors comprising our Board of Directors should enhance our overall corporate governance standards.

Based on the above, our Board of Directors is satisfied that our Board of Directors as a whole together with our management team are able to manage our Company independently.

EMOLUMENT POLICY

The emolument policy of the Group to reward its employees is based on their performance, qualifications, competence and market comparables. Remuneration package generally comprises salary, housing allowance, contribution to pension schemes and bonuses relating to the profit of the relevant company.

The remuneration package of the executive directors and the senior management are also linked more to the performance of the Group and the return to its shareholders. This is achieved by way of share option schemes. The remuneration policy of the executive directors and the Group's senior management is overseen by the Remuneration Committee of the Company.

The Company has adopted a pre-IPO share option scheme and a share option scheme as an incentive to directors and eligible employees, details of the schemes are set out under the section headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in this report and in note 38 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

USE OF PROCEEDS

The net proceeds from the Company's initial public offering, after deduction of related expenses, amounted to HK$1,042.0 million. The proceeds have been applied for in the year ended 31 December 2007 progressively and in accordance with the uses as set out in the Prospectus.

MAJOR CUSTOMERS AND SUPPLIERS

In 2007, the Group's largest supplier accounted for 24% of total purchases. The five largest suppliers accounted for 54% of the Group's total purchases, evidencing the purchasing department's commitment to ensuring that the Group is not dependent on any one supplier, and that our purchases are at fair market terms.

The Group's largest customer accounted for 72% of our revenue for the year 2007. In 2007, the Group's five largest customers accounted for 79% of our revenue.

Prior to the Group's acquisition on 30 November 2007, Mr. Zhu Gong Shan owned the entire equity interest in Suzhou Fuel Company which, during the period from 1 January 2007 to 30 November 2007, supplied 21% of the Group's purchases in the year. Save as disclosed above, 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 owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

Report of the Directors

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

The Shares of the Company were listed on the Stock Exchange on 13 November 2007. The Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the Review Period.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in normal course of business are set out in note 41 to the consolidated financial statements. In relation to those related party transactions that constituted connected transactions under the Listing Rules, they have complied with applicable requirements in accordance with the Listing Rules.

PUBLIC FLOAT

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

AUDITOR

The financial statements for the year ended 31 December 2007 have been audited by Messrs. Deloitte Touche Tohmatsu who will retire on conclusion of the forthcoming annual general meeting. A resolution for re-appointment of Messrs. Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming annual general meeting.

POST BALANCE SHEET EVENTS

Details of the post balance events of the Group are set out in the note 40 to the consolidated financial statements.

On behalf of the Board

Zhu Gong Shan
Chairman
Hong Kong, 10 April 2008

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF GCL-POLY ENERGY HOLDINGS LIMITED
保利協鑫能源控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of GCL-Poly Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 79 to 157, 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 International Financial Reporting Standards 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 the terms set out in the engagement letter 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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.

Independent Auditor's Report

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 the Group's loss and cash flows for the year then ended in accordance with International 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
10 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	**2007** **HK$'000**	2006 HK$'000
Revenue	8	**1,892,622**	910,022
Cost of sales		**(1,520,765)**	(710,753)
Gross profit		**371,857**	199,269
Other income	10	**112,085**	36,846
Administrative expenses		**(214,667)**	(69,036)
		269,275	167,079
Finance costs	11	**(165,712)**	(105,490)
Share of results of associates	19	**20,286**	46,709
Loss on increase in fair value of convertible note	30	**(348,571)**	(86,617)
Discount on acquisition of a subsidiary	33	**3,271**	–
Discount on acquisition of the equity interest in an associate	19	**–**	67,519
(Loss) profit before tax		**(221,451)**	89,200
Income tax credit (expense)	12	**4,132**	(3,460)
(Loss) profit for the year	13	**(217,319)**	85,740
Attributable to:			
Equity holders of the Company		**(273,679)**	58,295
Minority interests		**56,360**	27,445
		(217,319)	85,740
		HK cents	*HK cents*
(Loss) earnings per share – Basic	16	**(58.54)**	14.98

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**4,974,246**	2,221,178
Prepaid lease payments	18	**250,053**	73,292
Interests in associates	19	**77,955**	456,811
Goodwill	20	**124,639**	–
Other intangible assets	21	**15,801**	–
Available-for-sale investments	22	**12,453**	11,443
Loan receivable	23	**–**	597
Pledged bank deposits	26	**–**	9,950
Deferred tax assets	31	**12,149**	1,728
Deposit for acquisitions of property, plant and equipment and land use rights		**–**	1,090
		5,467,296	2,776,089
CURRENT ASSETS			
Inventories	24	**134,552**	41,978
Trade and other receivables	25	**583,975**	136,565
Prepaid lease payments	18	**9,561**	2,662
Amounts due from related companies	27	**20,640**	59,091
Tax recoverable		**656**	–
Pledged bank deposits	26	**258,382**	144,554
Bank balances and cash	26	**858,724**	186,566
		1,866,490	571,416
CURRENT LIABILITIES			
Trade and other payables	28	**657,250**	243,030
Amounts due to related companies	27	**48,707**	263,068
Tax payable		**4,901**	779
Borrowings – due within one year	29	**1,593,142**	387,533
		2,304,000	894,410
NET CURRENT LIABILITIES		**(437,510)**	(322,994)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,029,786**	2,453,095
NON-CURRENT LIABILITIES			
Deferred income		**66,613**	9,899
Borrowings – due after one year	29	**2,123,164**	1,143,752
Convertible note	30	**–**	780,004
Deferred tax liabilities	31	**23,821**	–
		2,213,598	1,933,655
NET ASSETS		**2,816,188**	519,440

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CAPITAL AND RESERVES			
Share capital	32	**97,242**	100
Reserves		**2,330,099**	313,335
Equity attributable to equity holders of the Company		**2,427,341**	313,435
MINORITY INTERESTS		**388,847**	206,005
TOTAL EQUITY		**2,816,188**	519,440

The consolidated financial statements on pages 79 to 157 were approved and authorised for issue by the Board of Directors on 10 April 2008 and are signed on its behalf by:

Director *Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company											
	Share capital paid-in capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 *(note a)*	Contribution from a shareholder HK$'000	Other reserves HK$'000 *(note b)*	share options reserve HK$'000	Investment revaluation reserve HK$'000 *(note c)*	Exchange reserve HK$'000	(Deficit) retained profits HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	468,596	–	–	–	1,230	–	–	9,143	(4,713)	474,256	184,765	659,021
Exchange difference arising from translation of functional currency to presentation currency recognised directly in equity	–	–	–	–	–	–	–	2,711	–	2,711	7,259	9,970
Share of exchange reserve of associates	–	–	–	–	–	–	–	9,030	–	9,030	–	9,030
Profit for the year	–	–	–	–	–	–	–	–	58,295	58,295	27,445	85,740
Total recognised income for the year	–	–	–	–	–	–	–	11,741	58,295	70,036	34,704	104,740
Issue of new shares	100	102,400	–	–	–	–	–	–	–	102,500	–	102,500
Issue costs of new shares	–	(1,000)	–	–	–	–	–	–	–	(1,000)	–	(1,000)
Corporate restructuring on acquisition of subsidiaries.	(468,596)	–	97,013	–	–	–	–	–	–	(371,583)	–	(371,583)
Capital contribution arising from additional capital injection in an associate from a shareholder *(note 19)*	–	–	–	19,110	–	–	–	–	–	19,110	–	19,110
Capital contribution arising from acquisitions of associates from a shareholder *(note 19)*	–	–	–	39,305	–	–	–	–	–	39,305	–	39,305
Appropriations	–	–	–	–	1,541	–	–	–	(1,541)	–	–	–
Dividends	–	–	–	–	–	–	–	–	(19,189)	(19,189)	(13,464)	(32,653)
At 31 December 2006 and 1 January 2007	100	101,400	97,013	58,415	2,771	–	–	20,884	32,852	313,435	206,005	519,440
Exchange difference arising from translation of functional currency to presentation currency recognised directly in equity	–	–	–	–	–	–	–	54,683	–	54,683	26,830	81,513
Share of exchange reserve of associates	–	–	–	–	–	–	–	1,325	–	1,325	–	1,325
(Loss) profit for the year	–	–	–	–	–	–	–	–	(273,679)	(273,679)	56,360	(217,319)
Total recognised income (loss) for the year	–	–	–	–	–	–	–	56,008	(273,679)	(217,671)	83,190	(134,481)
Issue of new shares upon conversion of convertible note	20,328	813,120	–	–	–	–	–	–	–	833,448	–	833,448
Capitalisation issue	38,822	(38,822)	–	–	–	–	–	–	–	–	–	–
Issue of new shares for acquisition of subsidiaries and an associate *(note 33)*	9,192	367,678	–	–	–	–	–	–	–	376,870	–	376,870
Issue of new shares for cash	28,800	1,152,000	–	–	–	–	–	–	–	1,180,800	–	1,180,800
Issue costs of new shares	–	(83,137)	–	–	–	–	–	–	–	(83,137)	–	(83,137)
Share of revaluation reserve of associates	–	–	–	–	–	–	6,698	–	–	6,698	–	6,698
Acquisitions of subsidiaries *(note 33)*	–	–	–	–	–	–	–	–	–	–	181,413	181,413
Capital contribution arising from acquisitions of subsidiaries from a shareholder *(note 33)*	–	–	–	6,038	–	–	–	–	–	6,038	–	6,038
Capital contribution arising from injection of an associate by a shareholder *(note 19)*	–	–	–	8,659	–	–	–	–	–	8,659	–	8,659
Contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	–	1,110	1,110
Transfer of ownership of subsidiaries to the Group *(note 43(b))*	–	–	–	–	–	–	–	–	–	–	1,231	1,231
Employee share option	–	–	–	–	–	2,201	–	–	–	2,201	–	2,201
Appropriations	–	–	–	–	7,844	–	–	–	(7,844)	–	–	–
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(84,102)	(84,102)
At 31 December 2007	97,242	2,312,239	97,013	73,112	10,615	2,201	6,698	76,892	(248,671)	2,427,341	388,847	2,816,188

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

Notes:

(a) Capital reserve represents the excess of the net assets of subsidiaries acquired by the Company under the group reorganisation over consideration paid.

(b) Other reserves represent the aggregate amount of reserve fund and enterprise development fund.

Pursuant to a Board resolution of each relevant subsidiary and associates established in the PRC, the subsidiary is required to transfer 3% of its profit after tax as per statutory financial statements (as determined by the management of the subsidiary) to the reserve fund until the fund balance reaches 50% of the registered capital of the subsidiary. The transfer to this fund must be made before distributing dividends to shareholders. The fund can be used to make up for previous years' losses or, expand the existing operations or can be converted into additional capital of the subsidiary.

Pursuant to a Board resolution of each relevant subsidiary established in the PRC, the subsidiary is required to transfer 2% of its profit after tax as per statutory financial statements (as determined by the management of the subsidiary) to the enterprise development fund. The fund can only be used for development and is not available for distribution to shareholders.

(c) Investment revaluation reserve represent the differences between the fair value and carrying amount of the net assets attributable to the previous interest in the associates when the acquisition in stages achieving control.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	**2007** ***HK$'000***	2006 *HK$'000*
OPERATING ACTIVITIES			
(Loss) profit before tax		**(221,451)**	89,200
Adjustments for:			
Depreciation		**163,311**	94,536
Interest expenses		**165,712**	105,490
Release of prepaid lease payments		**3,593**	2,387
Loss on disposal of property, plant and equipment		**114**	505
Loss on increase in fair value of convertible note		**348,571**	86,617
Interest income		**(10,769)**	(5,654)
Subscription interest income		**(22,872)**	–
Amortisation of connection fee income		**(2,389)**	(2,944)
Share of results of associates		**(20,286)**	(46,709)
Share based payment expense		**2,201**	–
Discount on acquisition of a subsidiary	*33*	**(3,271)**	–
Discount on acquisition of the equity interest in an associate	*19*	**–**	(67,519)
Allowance for trade and other receivables		**4,381**	–
Operating cash flows before movements in working capital		**406,845**	255,909
Increase in inventories		**(20,691)**	(3,761)
Increase in trade and other receivables		**(91,835)**	(15,532)
Decrease (increase) in amounts due from related companies		**23,455**	(93)
Decrease in trade and other payables		**(49,762)**	(21,685)
(Decrease) increase in amounts due to related companies		**(86,557)**	21,689
Increase in deferred income		**28,516**	9,015
Cash generated from operations		**209,971**	245,542
Income taxes paid		**(3,281)**	(3,608)
NET CASH FROM OPERATING ACTIVITIES		**206,690**	241,934

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(263,576)**	(287,584)
Value-added tax refund on purchase of property, plant and equipment		**14,308**	5,738
Increase in deposits for acquisition of property, plant and equipment		**–**	(644)
Acquisitions of subsidiaries	33	**(92,827)**	–
Investments in associates	19	**(28,044)**	(275,138)
Acquisitions arising from achieving control on associates	33	**102,007**	–
Acquisition of prepaid lease payments		**(8,108)**	(6,247)
Acquisition of an available-for-sale investment		**–**	(498)
Decrease (increase) in pledged bank deposits		**(36,469)**	32,783
Repayment from (advances to) related companies		**86,792**	(2,423)
Proceeds on disposal of property, plant and equipment		**1,308**	498
Interest received		**10,769**	5,654
Subscription interest received		**22,872**	–
Dividend from an associate		**53,665**	–
Decrease (increase) in loan receivable		**641**	(199)
NET CASH USED IN INVESTING ACTIVITIES		**(136,662)**	(528,060)
FINANCING ACTIVITIES			
Proceeds from issue of new shares		**1,180,800**	102,500
Redemption of convertible note		**(344,345)**	–
Issue cost of new shares		**(82,137)**	(1,000)
New loans raised		**988,961**	473,700
Repayments of borrowings		**(805,417)**	(367,740)
Repayments to related companies		**(153,371)**	(185)
Dividends paid to minority shareholders		**(49,554)**	(32,653)
Interest paid		**(166,392)**	(93,414)
Distribution to equity owner upon group restructuring		**–**	(371,583)
Proceeds on issue of convertible note	30	**–**	686,397
Issue cost of convertible note	30	**–**	(18,092)
NET CASH FROM FINANCING ACTIVITIES		**568,545**	377,930
NET INCREASE IN CASH AND CASH EQUIVALENTS		**638,573**	91,804
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**186,566**	95,709
Effect of foreign exchange rate changes		**33,585**	(947)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**858,724**	186,566

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 12 July 2006 under the Companies Law, Cap 22 of the Cayman Islands. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 13 November 2007. The address of the registered office of the Company is at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681 GT, George Town, Grand Cayman, British West Indies and the principal place of business is at Suite 3601-3604, Two Exchange Square, Central, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are development, construction, management and operation of cogeneration and power plants in the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company and its subsidiaries (collectively the "Group") finance its capital intensive operations by short-term and long-term bank borrowings and shareholders' equity. It had net current liabilities as at 31 December 2007 with short-term bank borrowings which the directors of the Company believe could be renewed on an annual basis. The directors of the Company are of the opinion that, taking into account the presently available banking facilities and internal financial resources of the Group, the Group has sufficient working capital for its present requirements within one year from the balance sheet date. Hence, the consolidated financial statements have been prepared on a going concern basis.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Group has accounted for business combination involving entities under common control by using the principles of merger accounting in accordance with the accounting policy in Note 4.

The Group has accounted for the entities not under common control from the respective effective dates of acquisition by the purchase method of accounting in accordance with International Financial Reporting Standards ("IFRSs") 3 *"Business Combination"* issued by the International Accounting Standards Board ("IASB").

Details of the Group Reorganisation had been set out in the prospectus of the Company, dated 31 October 2007.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

At the date of this report, the IASB and the International Financial Reporting Interpretations Committee ("IFRIC") have issued the following new and revised International Accounting Standards ("IASs"), IFRSs, amendments and interpretations which are not yet effective. The Group has not early adopted the following new standards, amendments and interpretations in the preparation of the consolidated financial statements for the year.

IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 23 (Revised)	Borrowing Costs[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
IFRS 2 (Amendment)	Vesting Conditions and Cancellation[1]
IFRS 3 (Revised)	Business Combination[2]
IFRS 8	Operating Segments[1]
IFRIC– Int 11	IFRS 2: Group and Treasury Share Transactions[3]
IFRIC– Int 12	Services Concession Arrangements[4]
IFRIC– Int 13	Customer Loyalty Programmes[5]
IFRIC– Int 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual period beginning on or after 1 January 2009
2 Effective for annual period beginning on or after 1 July 2009
3 Effective for annual period beginning on or after 1 March 2007
4 Effective for annual period beginning on or after 1 January 2008
5 Effective for annual period beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group except for the adoption of IFRS 3 (revised) "*Business Combinations*" and IAS 27 (Revised) "*Consolidation and Separate Financial Statements*". IFRS 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. IAS 27 (revised) will affect the accounting treatment on 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under 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 International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate 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 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 as 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 combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combination involving entities under common control *(continued)*

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Business combination other than entities under common control

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 IFRS 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, whereas the acquisition from the equity holders of the Company, the excess is recognised in equity.

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.

Business combination achieved in stages

When a business combination involves more than one exchange transaction, each exchange transaction is treated separately by the acquirer, using the cost of the transaction and fair value information at the date of each exchange transaction, to determine the amount of any goodwill associated with that transaction. The acquiree's net assets are stated at fair value at the date of acquisition when control is achieved. Any adjustment to those fair values relating to previously held interests (including but not limited to interests which were equity accounted under IAS 28 "*Investments in Associates*") of the acquirer is a revaluation and is accounted for as an adjustment directly in equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on an acquisition of businesses 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 businesses 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 business, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the Company 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 the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equal or exceeds the Group's 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

Any excess of the cost of acquisition over the Group's share of the 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, whereas the acquisition from the equity holders of the Company, the excess is recognised in equity.

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

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is charged 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 their estimated residual value, using the straight line method.

Construction in progress represents 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 income statement in the year in which the item is derecognised.

Prepaid lease payments

Payment for obtaining land use rights is accounted for as prepaid lease payments and is charged to the consolidated income statement on a straight line basis over the lease terms.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill when they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible asset is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Impairment losses on tangible and intangible assets other than goodwill

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 weighted average cost method.

Revenue recognition

Revenue is measured at 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.

Revenue from the sales of electricity and steam are recorded based upon output delivered and capacity provided at rates specified under contract terms.

Management fee income is recognised when the services are rendered.

Interest income 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Connection fee income in relation to transmission of steam is recognised on a straight line basis over the period of expected lives of steam transmission services with reference to the terms of the operating licence of the relevant entities.

Sales of scrap materials are recognised when goods are delivered and title has passed.

Deferred income

Deferred income represents connection fee income not yet recognised in relation to steam transmission services.

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.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. 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.

Foreign currencies

The functional currency of the Company and its subsidiaries is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HKD") because the Company is listed on the Stock Exchange, and most of its investors and potential investors are located in Hong Kong.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year 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 year 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's operations are translated from their functional currencies into the presentation currency of the Group (i.e. HKD) 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. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant assets and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as other income.

Retirement benefit costs

Payments to defined contribution retirement benefit plans or state-managed retirement benefit schemes or the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered services entitling them to the contributions.

4. 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 which affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and 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.

Financial instruments

Financial assets and financial liabilities are recognised on the 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 (other than financial assets and financial liabilities at fair value through profit or loss) that are directly attributable to the acquisition or issue of financial assets and financial liabilities 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade 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.

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.

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, loan receivable, amounts due from related parties, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

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.

At each balance sheet date subsequent to initial recognition, available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Impairment of financial assets

Financial assets 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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 reorganisation.

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 and other 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 and 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. 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. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit and loss ("FVTPL") and other financial 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 other than those financial liability designated as at FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at fair value through profit or loss

Certain financial liabilities of the Group are designated at FVTPL on initial recognition.

At each balance sheet date subsequent to initial recognition, financial liabilities 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 excludes any interest paid on the financial liabilities.

Convertible loan note

The convertible note of the Company consists of the liability component and embedded derivatives (such as embedded conversion option, early redemption option and interest adjustment derivative). Conversion options that are not settled by the exchange of a fixed amount for a fixed number of the Company's equity instrument is considered as embedded derivatives not closely related to the host contract (the liability component).

The Group has elected to designate its convertible note with embedded derivatives as financial liabilities at FVTPL on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible note is measured at fair value, with changes in fair value recognised directly in profit or loss in the year in which they arise.

Transaction costs that are directly attributable to the issue of the convertible note designated as financial liabilities at FVTPL are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Other financial liabilities

Other financial liabilities (including borrowings, trade and other payables and amounts due to related parties) 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.

Transaction costs of equity transaction

The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

Transaction costs related jointly to concurrent offering of some shares and listing of shares are allocated using a basis of allocation that is rational and consistent with similar transactions.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 "*Provisions, Contingent Liabilities and Contingent Assets*"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "*Revenue*".

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

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 options 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 the 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 options 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 options reserve will be transferred to retained profits.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at 31 December 2007, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold.

Estimated 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 future cash flows are less than expected, a material impairment loss may arise.

Estimated impairment of trade and other receivables

Where there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Expected lives of steam transmission services in relation to the recognition of connection fee income

The Group's management determines the estimated lives of steam transmission services in relation to the recognition of connection fee income with reference to the remaining terms of the operating licence of the relevant entities. This estimate is based on the historical experience with respect to the estimated useful lives of steam transmission services of similar nature and functions. Management will accelerate the recognition of connection fee income where the actual service periods of steam transmission are shorter than the estimated lives of steam transmission services.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. 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 capital structure of the Group consist net debts, which includes amounts due to related companies, borrowings and convertible note, as disclosed in notes 27, 29 and 30, respectively, net of bank balances and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure from time to time. As a part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the issue of new shares, new debts or the redemption of existing debts.

7. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2007 HK$'000	2006 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,598,054**	522,246
Available-for-sale financial assets	**12,453**	11,443
Financial liabilities		
Amortised cost	**4,355,593**	2,013,880
FVTPL– convertible note	**–**	780,004

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, trade and other payables, amounts due from (to) related companies, borrowings, convertible note, pledged bank deposits and bank balances. Details of these financial instruments are disclosed in respective notes. It is, and has been throughout the year, the Group's policy not to enter into trading of financial instruments including derivative transactions.

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.

7. FINANCIAL INSTRUMENTS *(continued)*

b. Financial risk management objectives and policies *(continued)*

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, management has delegated a team responsible for the 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 Group has been largely dependent on a small number of customers for a substantial portion of its business. The two largest customers accounted for a total of 68% of the Group's trade receivables as at 31 December 2007 (2006: 70%). The failure of any of these customers to make required payments could have a substantial negative impact on the Group's results. The Group manages this risk by applying a limit on the credit to these customers.

The credit risk on liquid funds is limited because the counterparties are reputable banks in PRC and Hong Kong.

Market risks

The Group's activities expose it primarily to the financial risks of changes in interest rate risk, foreign currency rate risk and equity price risk. Market risk exposures are further measured by sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk. Details of each type of market risks are described as follows:

(i) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits and bank deposits, fixed-rate borrowings (see note 29 for details of these borrowings) and fixed-rate convertible note (see note 30 for details of the convertible note). The Group currently has not entered into interest rate swaps to hedge against its exposure to changes in fair values of the pledged bank deposits, bank balances, borrowings and convertible note.

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings (see note 29 for details of these borrowings) and bank balances. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Notes to the Consolidated Financial Statements

7. FINANCIAL INSTRUMENTS *(continued)*

b. Financial risk management objectives and policies *(continued)*

Market risks (continued)

(i) Interest rate risk *(continued)*

It is the Group's policy to maintain an appropriate level between its fixed-rate and variable-rate borrowings so as to minimise the fair value and cash flow interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analysis have been determined based on the exposure to interest rates for variable-rate borrowings and bank balances at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the year in the case of instruments that have floating rates. 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 possible change in interest rates.

Borrowings

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by approximately HK$10,604,000 (2006: HK$1,364,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

Bank balances

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase/decrease by approximately HK$2,900,000. This is mainly attributable to the Group's exposure to interest rates on its variable rate bank balances.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable-rate borrowings.

7. FINANCIAL INSTRUMENTS *(continued)*

b. Financial risk management objectives and policies *(continued)*

Market risks (continued)

(ii) Currency risk

Certain bank balances of the Group and prior to conversion and redemption, the convertible note of the Company, were denominated in HKD and United States Dollars ("USD"), which are not the functional currency of the relevant group entities and hence expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are as follows:

	Liabilities		**Assets**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
USD	**–**	780,004	**327,285**	20,089
HKD	**–**	–	**52,326**	304

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number indicates an increase in profit where RMB strengthens against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	HKD impact		**USD impact**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Profit for the year	**(2,294)**	(15)	**(16,360)**	37,212

The Group's sensitivity to foreign currency has decreased during the current year mainly due to the conversion and settlement of convertible note upon the listing which has no USD denominated financial liability but recorded USD denominated financial assets in the form of USD bank deposits.

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

7. FINANCIAL INSTRUMENTS *(continued)*

b. Financial risk management objectives and policies *(continued)*

Market risks (continued)

(iii) Equity price risk on convertible note

The Group does not expose to any equity price risk as the Group does not hold any listed equity investments as at 31 December 2007. Accordingly, no equity price sensitivity analysis is presented.

As at 31 December 2006, the Group was required to estimate the fair value of the conversion option component of the convertible note which therefore exposed the Group to equity security price risk. The convertible note is settled in full during the year.

Liquidity risk

The Group has net current liabilities amounting to approximately HK$437,510,000 at 31 December 2007 (2006: HK$322,994,000). The Group is exposed to liquidity risk of being unable to raise sufficient funds to meet its financial obligations when they fall due.

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, the management monitors the utilisation of bank and other borrowings to ensure adequate unutilised banking facilities and compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2007, the Group has borrowings of approximately HK$3,716 million (2006: HK$1,531 million). Details of which are set out in note 29.

7. FINANCIAL INSTRUMENTS *(continued)*

b. Financial risk management objectives and policies *(continued)*

Liquidity risk (continued)

Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative 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.

	Weighted average effective interest rate %	Less than 3 months *HK$'000*	3 months to 1 year *HK$'000*	1-2 years *HK$'000*	2-5 years *HK$'000*	Over 5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
As at 31 December 2007								
Trade and other payables	**–**	**567,900**	**22,680**	**–**	**–**	**–**	**590,580**	**590,580**
Amounts due to related companies	**–**	**48,707**	**–**	**–**	**–**	**–**	**48,707**	**48,707**
Variable-rate borrowings	**7.29**	**93,159**	**633,626**	**422,543**	**594,882**	**668,988**	**2,413,198**	**2,120,757**
Fixed-rate borrowings	**6.78**	**246,838**	**844,068**	**106,462**	**378,746**	**235,444**	**1,811,558**	**1,595,549**
		956,604	**1,500,374**	**529,005**	**973,628**	**904,432**	**4,864,043**	**4,355,593**
As at 31 December 2006								
Trade and other payables	–	206,475	13,052	–	–	–	219,527	219,527
Amounts due to related companies	–	209,836	53,232	–	–	–	263,068	263,068
Variable-rate borrowings	6.92	–	88,915	80,451	138,865	64,096	372,327	305,465
Fixed-rate borrowings	5.79	14,925	300,379	272,399	547,406	301,099	1,436,208	1,225,820
Convertible note	10	–	–	–	–	686,397	686,397	780,004
		431,236	455,578	352,850	686,271	1,051,592	2,977,527	2,793,884

c. Fair value

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

- the fair value of financial assets and financial liabilities (excluding convertible note and share based payment transactions) is 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 fair value of convertible note as detailed in note 30 is determined with reference to a valuation report carried out by independent and recognised international business valuers; and
- the fair value of share based payment transactions as detailed in note 38 is estimated using the binomial model.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

7. FINANCIAL INSTRUMENTS *(continued)*

c. Fair value *(continued)*

The directors of the Company consider that the carrying amounts of all financial assets and financial liabilities (excluding convertible note and share based payment transactions) recorded at amortised cost in the consolidated financial statements approximate their corresponding fair values.

8. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2007 **HK$'000**	2006 HK$'000
Sales of electricity	**1,508,392**	711,600
Sales of steam	**384,230**	198,422
	1,892,622	910,022

9. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segment

Substantially all of the Group's consolidated revenue and contribution to profit from operations for the year ended 31 December 2006 were derived from the coal (including coal sludge, sludge and gangue) fuelled cogeneration plants in the PRC. Accordingly, no analysis by business segment of operations is provided. Revenue from sales of electricity and sales of steam are considered as one reportable business segment because steam is generated simultaneously during the power generation process.

During the year ended 31 December 2007, a cogeneration plant fuelled by natural gas, which was previously equity accounted for as an associate, is consolidated as a subsidiary of the Group. For management purposes, the Group is currently organised into three operating divisions – coal (including coal sludge, sludge and gangue) fuelled cogeneration plants, gas-fuelled cogeneration plant and others. These divisions are the basis on which the Group reports its primary segment information.

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segment *(continued)*

Segment information about the Group's operations for the year ended 31 December 2007 is presented below.

Consolidated Income Statement

For the year ended 31 December 2007

	Coal (including coal sludge, sludge and gangue) fuelled cogeneration plants *HK$'000*	Gas-fuelled cogeneration plant *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Revenue	1,175,017	701,537	16,068	1,892,622
Result				
Segment result	200,654	107,900	30,505	339,059
Unallocated income				33,641
Unallocated expense				(103,425)
Share of results of associates	18,605	1,681	–	20,286
Finance costs				(165,712)
Discount on acquisition of a subsidiary				3,271
Loss on increase in fair value of convertible note				(348,571)
Loss before tax				(221,451)
Income tax credit				4,132
Loss for the year				(217,319)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segment *(continued)*

Other Information

For the year ended 31 December 2007

	Coal (including coal sludge, sludge and gangue) fuelled cogeneration plants *HK$'000*	Gas-fuelled cogeneration plant *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Capital additions of property, plant and equipment	1,644,912	1,032,957	3,281	2,681,150
Capital additions of prepaid lease payments	160,877	17,238	–	178,115
Depreciation of property, plant and equipment	113,802	41,060	8,449	163,311
Release of prepaid lease payments to income statement	2,899	304	390	3,593
Allowance on trade and other receivables recognised in the income statement	4,381	–	–	4,381

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segment *(continued)*

Consolidated Balance Sheet

At 31 December 2007

	Coal (including coal sludge, sludge and gangue) fuelled cogeneration plants *HK$'000*	Gas-fuelled cogeneration plant *HK$'000*	Other *HK$'000*	Consolidated *HK$'000*
Assets				
Segment assets	4,844,884	1,253,651	281,878	6,380,413
Interests in associates	77,955	–	–	77,955
Unallocated assets				875,418
Consolidated total assets				7,333,786
Liabilities				
Segment liabilities	537,072	125,360	88,280	750,712
Unallocated corporate liabilities				3,766,886
Consolidated total liabilities				4,517,598

Geographical segment

The Group's operations and cogeneration facilities are substantially located in the PRC.

Notes to the Consolidated Financial Statements

10. OTHER INCOME

	2007 **HK$'000**	2006 *HK$'000*
Government grants *(note 42)*	**43,807**	16,202
Subscription interest income *(Note a)*	**22,872**	–
Interest income	**10,769**	5,654
Management fee income	**12,900**	1,350
Sales of scrap materials	**8,973**	6,081
Rental income	**4,132**	2,993
Amortisation of connection fee income	**2,389**	2,944
Others	**6,243**	1,622
	112,085	36,846

Note:

(a) The subscription interest income is the interest income generated from the subscription period before the listing of the Company on the Main Board of the Stock Exchange.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

11. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings	**166,158**	90,552
Discounted bills	**4,337**	2,749
Issue cost of convertible note *(note 30)*	**–**	18,092
Other finance costs	**219**	305
Total borrowing costs	**170,714**	111,698
Less: Interest capitalised	**(5,002)**	(6,208)
	165,712	105,490

12. INCOME TAX CREDIT (EXPENSE)

	2007	2006
	HK$'000	*HK$'000*
The tax credit (expense) comprises:		
Current tax:		
Current year	**(4,696)**	(4,156)
Overprovision in prior year	**530**	10
	(4,166)	(4,146)
Deferred tax *(note 31)*	**8,298**	686
	4,132	(3,460)

The tax credit (expense) of the year represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of subsidiaries in the PRC.

12. INCOME TAX CREDIT (EXPENSE) *(continued)*

According to PRC tax laws and regulations prevailing in the year 2007 and before, in general, PRC companies should be liable to pay enterprise income tax at the rate of 33% on their assessable profits except where existing laws, administrative regulations or any other relevant regulations promulgated by the PRC State Council provide for tax exemptions or other relief. Foreign invested enterprises that are engaged in the energy industry, upon approval by the State Administration of Taxation, enjoy a preferential enterprise income tax rate of 15% on the assessable profits. All PRC subsidiaries engaged in energy industry enjoy this preferential tax rate, except for 太倉協鑫垃圾焚燒發電有限公司 Taicang Xiexin Refuse Incineration Power Co., Ltd ("Taicang Incineration Plant") which is subject to enterprise income tax at 33% and currently in the process of applying for such preferential tax rate to the local tax authority.

Pursuant to the relevant laws and regulations in the PRC, as the subsidiaries are established in the PRC in the form of wholly foreign-owned enterprises or sino-foreign equity joint venture enterprises ("foreign investment enterprises") and engaged in the production activities, they should be entitled to full tax exemption from PRC Foreign Enterprise Income Tax ("FEIT") for two years starting from their first profit making year and followed by a 50% reduction on the FEIT for the next three years.

On 16 March 2007, the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") was promulgated 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 New Law and Implementation Regulations would impose a single income tax rate of 25% for all the enterprises from 1 January 2008. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa【2007】No.39), those entities that previously enjoyed tax incentive rate at 15% would increase their applicable tax rate progressively to 25% over a five-years transitional period. The tax exemption and deduction from FEIT for the foreign investment enterprises is still applicable until the end of the five-year transitional period under the New Law. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods during which the asset will be realised or the liability settled.

The subsidiaries, located in other jurisdictions, had no assessable profits for the year.

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

12. INCOME TAX CREDIT (EXPENSE) *(continued)*

The tax credit (expense) for the year can be reconciled to the (loss) profit before tax as follows:

	2007 *HK$'000*	2006 *HK$'000*
(Loss) profit before tax	**(221,451)**	89,200
Tax at the PRC tax rate of 15%	**33,218**	(13,380)
Tax effect of expenses not deductible for tax purposes	**(68,327)**	(18,415)
Tax effect of different tax rate of subsidiaries	**(158)**	(104)
Tax effect of share of results of associates	**3,043**	7,006
Tax effect of income not taxable for tax purposes	**5,727**	10,613
Effect of tax exemption granted to PRC subsidiaries	**29,625**	10,810
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rates	**474**	–
Overprovision in prior year	**530**	10
Tax credit (expense) for the year	**4,132**	(3,460)

Tax rate of 15% is adopted for the tax reconciliation as such tax rate is applicable to most of the Group's operation in the PRC for both years.

Details of movements in deferred tax have been set out in note 31.

13. (LOSS) PROFIT FOR THE YEAR

	2007 *HK$'000*	2006 *HK$'000*
(Loss) profit for the year has been arrived at after charging:		
Staff costs, including directors' remuneration		
Salaries, wages and other benefits	**102,081**	49,561
Share based payment expense	**2,201**	–
Retirement benefits scheme contributions	**6,264**	2,888
Total staff costs	**110,546**	52,449
Auditor's remuneration	**4,427**	807
Cost of inventories recognised as expense	**1,210,349**	556,613
Depreciation	**163,311**	94,536
Release of prepaid lease payments to income statement	**3,593**	2,387
Listing expenses	**51,810**	7,072
Allowance for trade and other receivable	**4,381**	–
Exchange loss, net	**12,042**	3,579
Loss on disposal of property, plant and equipment	**114**	505

Notes to the Consolidated Financial Statements

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of directors and the five highest paid employees are as follows:

(a) Directors' emoluments

The emoluments paid or payable to each director for the year ended 31 December 2007 are set out below:

Name of director	Directors' fee	Salaries and other benefit	Retirement benefits scheme contributions	Share based payment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. ZHU Gong Shan ("Mr. Zhu")	–	–	–	–	–
Mr. JI Jun	–	285	–	106	391
Mr. SHA Hong Qiu	–	337	11	118	466
Mr. SHU Hua	–	59	–	106	165
Mr. YU Bao Dong	–	1,060	36	106	1,202
Ms. SUN Wei	–	–	–	106	106
Mr. LAU Wai Yip	–	702	25	106	833
Mr. LAW Ryan Wing Cheung	–	–	–	–	–
Mr. HENG Kwoo Seng	96	–	–	–	96
Mr. QIAN Zhi Xin	48	–	–	–	48
Dr. HO Raymond Chung Tai	97	–	–	–	97
Mr. XUE Zhong Su	19	–	–	–	19
	260	2,443	72	648	3,423

There was no emoluments paid or payable by the Group to the directors of the Company for the year ended 31 December 2006.

None of the directors waived any emoluments for both years.

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

(b) Employees' emoluments

During the year, the five highest paid individuals included three directors (2006: nil), details of whose emoluments are set out in (a) above. The emoluments of the five individuals with the highest emoluments during the year are as follows:

	2007 **HK$'000**	2006 HK$'000
Salaries and other allowances	**4,606**	1,852
Retirement benefits scheme contributions	**102**	58
	4,708	1,910

The emoluments of each of the above five individuals are within the following bands:

	2007 **Number of employees**	2006 Number of employees
Nil to HK$1,000,000	**2**	5
HK$1,000,000 – HK$1,500,000	**3**	–
	5	5

15. DIVIDENDS

No dividend paid or proposed for the year ended 31 December 2007, nor has any dividend been proposed since the balance sheet date by the Company.

During the year ended 31 December 2006, dividends amounting to HK$19,189,000 represented the dividend paid by certain subsidiaries to Golden Concord Holdings Limited, a then intermediate holding company prior to a group reorganisation. The rates of dividend and the number of shares ranking for such dividends are not presented as such information is not meaningful having regard to the purpose of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

16. (LOSS) EARNINGS PER SHARE

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

	2007 **HK$'000**	2006 HK$'000
(Loss) profit attributable to equity holders of the Company	**(273,679)**	58,295
Represented by:		
Profit from ordinary operation	**100,559**	84,465
Non-recurring items		
Loss on increase in fair value of convertible note	**(348,571)**	(86,617)
Listing expenses less subscription interest income	**(28,938)**	(7,072)
Discount on acquisition of equity interest in an associate	**–**	67,519
Discount on acquisition of a subsidiary	**3,271**	–
Loss from non-recurring items	**(374,238)**	(26,170)
	(273,679)	58,295

	2007 **'000**	2006 '000
Weighted average number of shares	**467,513**	389,220

	2007 **HK Cents**	2006 HK Cents
Basic (loss) earnings per share		
– Profit from ordinary operation	**21.51**	21.70
– Loss from non-recurring items	**(80.05)**	(6.72)
	(58.54)	14.98

For the purpose of calculation of number of shares for the calculation of basic earnings per share, the 388,220,000 shares issued pursuant to the capitalisation issue was assumed to occur as at 1 January 2006.

The employee share options had no dilution effect on the loss per share for the year ended 31 December 2007 as the average market price of the Company's shares was lower than the exercise price of the options.

No diluted earnings per share was presented for the year ended 31 December 2006 as assuming the conversion of the Company's outstanding convertible note would result in an increase in earnings per share for the year ended 31 December 2006.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings *HK$'000*	Power generation plant and machinery *HK$'000*	Office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
COST						
At 1 January 2006	681,073	1,331,557	13,782	8,527	111,331	2,146,270
Exchange realignment	24,097	47,109	489	300	3,939	75,934
Reclassifications	79,479	184,440	863	–	(264,782)	–
Additions	20,884	40,650	3,121	1,816	171,570	238,041
Disposals	(178)	(438)	(54)	(395)	–	(1,065)
Value-added tax refund *(note 42)*	–	(5,738)	–	–	–	(5,738)
At 31 December 2006 and 1 January 2007	805,355	1,597,580	18,201	10,248	22,058	2,453,442
Exchange realignment	72,445	192,629	1,793	1,088	6,670	274,625
Reclassifications	20,597	97,590	2,221	–	(120,408)	–
Additions	12,052	8,717	3,979	2,731	230,266	257,745
Acquisitions of subsidiaries *(note 33)*	485,296	1,902,291	10,037	8,426	17,355	2,423,405
Disposals	–	(420)	(1,760)	(710)	–	(2,890)
Value-added tax refund *(note 42)*	–	(14,308)	–	–	–	(14,308)
At 31 December 2007	**1,395,745**	**3,784,079**	**34,471**	**21,783**	**155,941**	**5,392,019**
ACCUMULATED DEPRECIATION						
At 1 January 2006	(34,467)	(89,597)	(4,249)	(2,895)	–	(131,208)
Exchange realignment	(1,780)	(4,441)	(232)	(129)	–	(6,582)
Provided for the year	(27,314)	(61,931)	(3,961)	(1,330)	–	(94,536)
Eliminated on disposals	–	38	24	–	–	62
At 31 December 2006 and 1 January 2007	(63,561)	(155,931)	(8,418)	(4,354)	–	(232,264)
Exchange realignment	(6,128)	(16,400)	(736)	(402)	–	(23,666)
Provided for the year	(35,770)	(121,371)	(3,657)	(2,513)	–	(163,311)
Eliminated on disposals	–	219	757	492	–	1,468
At 31 December 2007	**(105,459)**	**(293,483)**	**(12,054)**	**(6,777)**	**–**	**(417,773)**
CARRYING VALUES						
At 31 December 2007	**1,290,286**	**3,490,596**	**22,417**	**15,006**	**155,941**	**4,974,246**
At 31 December 2006	741,794	1,441,649	9,783	5,894	22,058	2,221,178

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

The following rates are used for depreciation of property, plant and equipment other than construction in progress:

Buildings	3%-5%
Power generation plant and machinery	3%-5%
Office equipment	20%-33%
Motor vehicles	20%

The Group has pledged buildings with carrying values of approximately HK$870,078,000 at 31 December 2007 (2006: HK$323,947,000) and power generation plant and machinery with carrying values of approximately HK$2,680,309,000 at 31 December 2007 (2006: HK$651,584,000) to secure banking facilities granted to the Group.

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent leasehold land in the PRC under medium-term lease.

Analysed for reporting purposes as:

	2007 ***HK$'000***	2006 *HK$'000*
Non-current assets	**250,053**	73,292
Current assets	**9,561**	2,662
	259,614	75,954

Land use rights are amortised on a straight line basis over the lease terms as stated in the relevant land use right certificates granted for usage by the Group in the PRC and the remaining terms of operating licence of the PRC entities, whichever is the shorter.

The Group has pledged land use rights with carrying values of approximately HK$237,402,000 at 31 December 2007 (2006: HK$49,207,000) to secure banking facilities granted to the Group.

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19. INTERESTS IN ASSOCIATES

	2007 **HK$'000**	2006 HK$'000
Unlisted investments in associates, at cost	**67,780**	294,248
Discount on acquisition of associates	**8,659**	106,824
Share of post-acquisition profits, net of dividends received	**191**	46,709
Exchange realignment	**1,325**	9,030
Carrying amounts of interests in associates	**77,955**	456,811

As at 31 December 2007 and 2006, the Group had interests in the following associates established and operated in PRC:

Name of company	**Equity interest sheld by the Group**		**Proportion of voting power held**		**Principal activity**
	2007	2006 *(Note i)*	**2007**	2006	
東台蘇中環保熱電有限公司 Dongtai Suzhong Environmental Protection Co-generation Co., Ltd	**N/A*** *(Note iv)*	49.9%	**100%**	42.9%	Operation of a power station
嘉興協鑫環保熱電有限公司 Jiaxing Golden Concord Environmental Protection Cogen-Power Co., Ltd	**N/A*** *(Note iv)*	44%	**85.7%**	28.6%	Operation of a power station
沛縣坑口環保熱電有限公司 Peixian Mine-site Environmental Cogen-Power Co., Ltd	**N/A*** *(Note iv)*	49.9%	**100%**	42.9%	Operation of a power station
太倉保利協鑫熱電有限公司 Taicang Poly Xiexin Thermal Power Co., Ltd.	**N/A*** *(Note iv)*	49% *(Note ii)*	**100%**	45.5%	Operation of a power station
徐州保鑫污泥發電有限公司 Xuzhou Baoxin Sludge Co-generation Power Co., Ltd	**N/A*** *(Note iv)*	38.25%	**77.8%**	44.4%	Operation of a power station

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For the year ended 31 December 2007

19. INTERESTS IN ASSOCIATES *(continued)*

Name of company	**Equity interest sheld by the Group**		**Proportion of voting power held**		**Principal activity**
	2007	2006 *(Note i)*	**2007**	2006	
蘇州工業園藍天燃氣熱電有限公司 Suzhou Industrial Park Blue Sky Gas Cogen-Power Co., Ltd.	**N/A***	51% *(Note iii)*	**72.7%**	54.5%	Operation of a power station
阜寧協鑫環保熱電有限公司 Funing Golden Concord Environmental Protection Co-generation Co., Ltd	**60%** *(Note iv & v)*	–	**54.5%**	–	Operation of a power station and trading of coal

* Transferred to investments in subsidiaries of the Group upon the additional acquisition during the year ended 31 December 2007.

Notes:

(i) During the year ended 31 December 2006, the Group acquired 49.9% equity interests in each of Dongtai Cogeneration Plant and Peixian Cogeneration Plant, 49% equity interests in Taicang Poly Cogeneration Plant, 44% equity interest in Jiaxing Cogeneration Plant, 38.25% equity interest in Xuzhou Cogeneration Plant from companies controlled by a shareholder of the Company. The discount on acquisitions of approximately HK$31,556,000 was credited directly to equity of the Group as a capital contribution from a shareholder.

In addition, the Group acquired 26% equity interests in Suzhou Cogeneration Plant from a company controlled by a shareholder at a consideration of RMB81,160,000, a discount on acquisition of approximately HK$7,749,000 was credited directly to equity as a capital contribution from a shareholder.

The Group also acquired 25% equity interests in the Suzhou Cogeneration Plant at a consideration of HK$16,000,000 from a related company, which is not an equity holder of the Company, a discount on acquisition of approximately HK$67,519,000 was credited to the consolidated income statement for the year ended 31 December 2006.

The total cash considerations involved in above acquisitions amounted to approximately HK$275,138,000.

19. INTERESTS IN ASSOCIATES *(continued)*

Notes: (continued)

(ii) On 27 July 2006, after the acquisition, the Group injected HK$19,110,000 to Taicang Poly Cogeneration Plant as its share of the increase in registered capital of the plant. The additional capital injection was paid on behalf of the Group by the former immediate holding company. Accordingly, the additional investment in Taicang Poly Cogeneration Plant was deemed as contribution from a shareholder and was credited to equity directly.

(iii) The Group holds 51% equity interest in Suzhou Cogeneration Plant and had 54.5% of the voting power in board meetings. However, under its articles of association, two-thirds of votes were required to pass a resolution and therefore the Group did not control Suzhou Cogeneration Plant. As the Group had significant influence over Suzhou Cogeneration Plant, the investment was classified as an associate during the year ended 31 December 2006.

On 21 December 2006, the board of directors of Suzhou Cogeneration Plant approved an amendment to its Articles of Association, pursuant to which the Group can appoint eight out of eleven directors to the board of directors of Suzhou Cogeneration Plant and therefore the Group has voting rights of more than two-thirds majority and hence has control over the financial and operating policies in the Suzhou Cogeneration Plant. The amendment to the Articles of Association was registered on 13 March 2007. Upon registration of such amendment, the Group obtained the power to control the Suzhou Cogeneration Plant, accordingly, it has been accounted for as a subsidiary of the Group since 13 March 2007. Details of the acquisition of the subsidiary are set out in note 33.

(iv) On 13 November 2007, the Company acquired the entire share capital of NCHK Power (Taicang) Limited, Well United Interments Limited, Master Chief Holding Limited, Green Island Development Limited, High Praise Development Limited, Grant Merit Development Limited and Golden Concord Energy (Jia Xing) Limited from Poly (Hong Kong) Investment Company Limited ("Poly Hong Kong") which indirectly holds 50.1% equity interests in each of Dongtai Cogeneration Plant and Peixian Cogeneration Plant, 51% equity interests in each of Jiaxing Cogeneration Plant and Taicang Poly Cogeneration Plant, 36.75% equity interest in Xuzhou Cogeneration Plant and 29.4% equity interest in Funing Cogeneration Plant (collectively the "Poly Acquisition").

Upon completion of the Poly Acquisition, Taicang Cogeneration Plant, Jiaxing Cogeneration Plant, Dongtai Cogeneration Plant, Peixian Cogeneration Plant and Xuzhou Cogeneration Plant became subsidiaries of the Group and their results have then been consolidated by the Group. Details of the fair values of net assets acquired of these subsidiaries at the acquisition date are set out in note 33.

(v) On 27 November 2007, the Group acquired additional 30.6% equity interest in Funing Cogeneration Plant from a shareholder of the Company at a cash consideration of HK$28,044,000. The discount on acquisition of approximately HK$8,659,000 is credited directly to equity of the Group as a capital contribution from a shareholder.

Following the completion of acquisition, the Group holds 60% of the registered capital of Funing Cogeneration Plant. However, under the articles of association of Funing Cogeneration Plant, the Group can only appoint six out of eleven directors to the board of directors of Funing Cogeneration Plant, which is less than two-thirds majority which is required to pass financial and operation policies of Funing Cogeneration Plant. The directors of the Company consider that the Group does exercise significant influence over Funing Cogeneration Plant and it is therefore classified as an associate of the Group.

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19. INTERESTS IN ASSOCIATES *(continued)*

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

	2007	2006
	HK$'000	*HK$'000*
Total assets	**255,263**	2,812,664
Total liabilities	**153,808**	1,906,018
Net assets	**101,455**	906,646
Revenue	**698,605**	537,706
Profit for the year	**43,023**	93,694
Group's share of results of associates for the year	**20,286**	46,709

20. GOODWILL

	2007	2006
	HK$'000	*HK$'000*
COST		
At 1 January		
Acquisitions of subsidiaries *(note 33)*	**122,334**	–
Exchange realignment	**2,305**	–
At 31 December	**124,639**	–

20. GOODWILL *(continued)*

For the purposes of impairment testing, goodwill have been allocated to four individual cash generating units ("CGUs"), including four subsidiaries in Coal-fuelled cogeneration plants segment. The carrying amounts of goodwill as at 31 December 2007 allocated to these units are as follows:

	2007 *HK$'000*	2006 *HK$'000*
Dongtai Cogeneration Plant	**31,287**	–
Jiaxing Cogeneration Plant	**70,299**	–
Peixian Cogeneration Plant	**22,314**	–
Xuzhou Cogeneration Plant	**739**	–
	124,639	–

As at 31 December 2007, management of the Group determines that there are no impairments of any of its CGUs containing goodwill with indefinite useful lives.

The recoverable amounts of CGUs are determined by reference to a business valuation performed by Sallmanns (Far East) Ltd., an independent and recognised international business valuer as at 31 December 2007. The recoverable amount of these CGUs has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period for Dongtai Cogeneration Plant, Peixian Cogeneration Plant and Xuzhou Cogeneration Plant and six-year period for Jiaxing Cogeneration Plant, and discount rate of 13.38%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of these CGUs to exceed the aggregate recoverable amount of these CGUs.

21. OTHER INTANGIBLE ASSETS

	Customer list
	HK$'000
COST	
Acquisitions of subsidiaries *(note 33)*	15,583
Exchange realignment	270
At 31 December 2007	15,853
AMORTISATION	
Provided for the year	50
Exchange realignment	2
At 31 December 2007	52
CARRYING AMOUNTS	
At 31 December 2007	15,801
At 31 December 2006	–

The intangible assets are purchased as part of a business combination in current year from a third party. The intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over 20 years.

22. AVAILABLE-FOR-SALE INVESTMENTS

	2007 HK$'000	2006 HK$'000
Unlisted equity investments	**12,453**	11,443

The unlisted investments mainly represent investments in unlisted equity securities of the following PRC entities:

Name of investee	Percentage of equity attributable directly to the Group
揚州市金秋新型建築材料有限公司	8.33%
昆山年輪紙業科技有限公司	18.03%

They are measured at cost less impairment, if any, at the balance sheet date 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.

23. LOAN RECEIVABLE

	2007 HK$'000	2006 HK$'000
RMB interest-free loan receivable from a third party	**–**	597

The loan receivable from a third party was unsecured and interest-free.

24. INVENTORIES

	2007 HK$'000	2006 HK$'000
Fuel	**109,309**	34,003
Spare parts	**25,035**	7,761
Consumables	**208**	214
	134,552	41,978

25. TRADE AND OTHER RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**409,819**	112,467
Less: allowance for doubtful debts	**(3,449)**	–
	406,370	112,467
Other receivables	**56,651**	10,514
Less: allowance for doubtful debts	**(2,713)**	(1,493)
	53,938	9,021
Prepayments	**123,667**	15,077
	583,975	136,565

The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
0–90 days	**401,695**	110,579
91–180 days	**3,405**	1,046
Over 180 days	**1,270**	842
	406,370	112,467

Trade receivables at the balance sheet date mainly comprise amounts receivable from the sales of electricity and steam. No interest is charged on the trade receivables. The Group has a policy of allowing an average credit period of 30 to 90 days to its trade customers.

25. TRADE AND OTHER RECEIVABLES *(continued)*

Over 95% of the trade receivables are neither past due nor impaired. The management considers that these receivables have the best credit scoring attributable under the credit review policy used by the Group.

Included in the Group's trade receivable balance are debtors with a carrying amount of approximately HK$4,675,000 which are past due at 31 December 2007 (2006: HK$1,888,000) for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables at 31 December 2007 is 165 days (2006: 164 days).

Full allowance has been made for impairment of certain trade and other receivables of approximately HK$6,162,000 (2006: HK$1,493,000) which has been past due and considered as irrecoverable by the directors of the Company.

Movement of the allowance for doubtful debts for trade and other receivable for the year is set out as follows:

	2007 ***HK$'000***	2006 *HK$'000*
Balance at beginning of the year	**1,493**	1,442
Exchange realignment	**288**	51
Impairment loss recognised in the year	**4,381**	–
Balance at end of the year	**6,162**	1,493

26. BANK BALANCES AND PLEDGED BANK DEPOSITS

Bank balances

Bank balances carry interest at rates ranging from 0.72% to 4.80% (2006: 0.72% to 2.25%).

Pledged bank deposits

These bank deposits carry fixed interest rates ranging from 0.72% to 5.49% (2006: 0.72% to 5.43%). The pledged bank deposits will be released upon the settlement of the relevant bills and notes payable and bank borrowings.

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$258,382,000 (2006: HK$144,554,000) have been pledged to secure bills and notes payable and short term borrowings granted to the Group and are therefore classified as current assets.

As at 31 December 2006, the remaining deposits amounting to HK$9,950,000 had been pledged to secure long-term borrowings and classified as non-current assets. The deposits were fully released during the year.

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27. AMOUNTS DUE FROM (TO) RELATED COMPANIES

	2007 **HK$'000**	2006 HK$'000
Amounts due from:		
Non-trade related:		
Related companies in which directors of the Company have beneficial interests		
上海思創能源有限公司	**7,467**	–
嘉興市秀洲工業區宏業開發建設投資有限公司	**21**	–
徐州天能鍋爐機械銷售有限公司	**2**	–
上海協鑫電力建設管理有限公司	**–**	2,375
Funing Cogeneration Plant	**–**	9,950
Golden Concord Holdings Limited	**–**	657
Golden Concord Power (Funing) Limited	**–**	28,500
	7,490	41,482
Former immediate holding company	**–**	13,552
A shareholder	**13**	–
Associates	**13,131**	3,451
	20,634	58,485
Trade-related:		
Related companies in which directors of the Company have beneficial interests		
0-90 days	**6**	581
Over 180 days	**–**	25
	6	606
	20,640	59,091

For non-trade related amounts due from related companies, the amounts are unsecured and non-interest bearing.

For trade related amounts due from related companies, the amounts are unsecured, non-interest bearing and with a credit term of 90 days.

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27. AMOUNTS DUE FROM (TO) RELATED COMPANIES *(continued)*

	2007 ***HK$'000***	2006 *HK$'000*
Amounts due to:		
Non-trade related:		
Related companies in which directors of the Company have beneficial interests	**47,543**	161,121
Associates	**–**	24,713
	47,543	185,834
Trade-related:		
Related companies in which directors of the Company have beneficial interests		
0-90 days	**1,164**	24,002
91-180 days	**–**	53,232
	1,164	77,234
	48,707	263,068

For non-trade related amounts due to related companies, the amounts are unsecured, non-interest bearing and repayable on demand.

For trade related amounts due to related companies, the amounts are unsecured, non-interest bearing and with a credit term of 90 days.

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For the year ended 31 December 2007

28. TRADE AND OTHER PAYABLES

	2007 HK$'000	2006 HK$'000
Trade payables		
0-90 days	**139,306**	36,243
91-180 days	**4,321**	811
Over 180 days	**5,111**	2,291
	148,738	39,345
Bills and notes payable (trade)		
0-90 days	**10,753**	28,855
91-180 days	**10,510**	9,950
	21,263	38,805
Construction payables	**169,104**	106,328
Other payables	**158,958**	24,120
Accruals	**10,855**	13,342
Other tax payables	**27,707**	7,766
Interest payables	**6,450**	1,982
Deposits received	**28,108**	2,395
Dividend payables to minority shareholders of subsidiaries	**86,067**	8,947
	657,250	243,030

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period for trade purchases is 30 to 90 days.

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29. BORROWINGS

	2007 HK$'000	2006 HK$'000
Bank borrowings		
Secured	**2,672,432**	615,557
Unsecured	**1,043,874**	897,818
	3,716,306	1,513,375
Other financial institution borrowings		
Secured	**–**	17,910
	3,716,306	1,531,285

The borrowings are repayable as follows:

	2007 HK$'000	2006 HK$'000
On demand or within one year	**1,593,142**	387,533
In the second year	**443,643**	319,893
In the third year	**429,759**	236,810
In the fourth year	**254,607**	215,915
In the fifth year	**149,943**	112,434
After five years	**845,212**	258,700
	3,716,306	1,531,285
Less: Amounts due for settlement within 12 months (shown under current liabilities)	**(1,593,142)**	(387,533)
Amounts due for settlement after 12 months	**2,123,164**	1,143,752

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29. BORROWINGS *(continued)*

The borrowings which carry fixed and variable interest rates with reference to the Benchmark Borrowing Rate of the PRC ("Benchmark Rate") are analysed as follows:

	2007		2006	
	HK$'000	***Interest***	*HK$'000*	*Interest*
Fixed-rate borrowings	**1,595,549**	**5.02% to 10.44%**	1,225,820	4.19% to 7.81%
Variable-rate borrowings	**2,120,757**	**Benchmark Rate -0.5% to +2%**	305,465	Benchmark Rate - 1% to + 2.0%

The borrowings are arranged at fixed and variable interest rates and expose the Group to fair value interest rate risk and cash flow interest rate risk, respectively. Borrowings are guaranteed by an outsider, a shareholder, minority shareholders of subsidiaries and related companies which have common directors to the Company.

Certain borrowings are secured by property, plant and equipment, land use rights and bank deposits as set out in notes 17, 18 and 26, respectively.

All the borrowings are denominated in RMB which is the functional currency of the Company and its subsidiaries.

30. CONVERTIBLE NOTE

The movement of the convertible note at 31 December 2007 and 2006 is set out as follows:

	Total	**Shown as**
	US$'000	*HK$'000*
Convertible note issued on 7 November 2006	88,000	686,397
Exchange difference arising from translation of functional currency to presentation currency	–	6,990
Change in fair value recognised in income statement	12,000	86,617
At 31 December 2006 and 1 January 2007	100,000	780,004
Exchange difference arising from translation of functional currency to presentation currency	–	49,218
Change in fair value recognised in income statement	50,999	348,571
Conversion to ordinary shares of the Company	(106,852)	(833,448)
Redemption	(44,147)	(344,345)
At 31 December 2007	**–**	**–**

30. CONVERTIBLE NOTE *(continued)*

On 7 November 2006, the Company issued a convertible note for a principal amount of US$88,000,000 to an independent third-party, MS China 3 Limited (the "Note Holder"). 60% of the principal amount, representing US$52,800,000 (the "Convertible Amount") was convertible and redeemable and the remaining 40% of the principal amount, representing US$35,200,000 (the "Loan Amount") was redeemable but not convertible. The convertible note was denominated in United States dollars and was secured by certain equity interests of the Company's subsidiaries and associates.

The initial conversion price was US$112.20 per share and the initial number of ordinary shares issuable upon conversion of the Convertible Amount was 470,588 (assuming a total of 1,000,000 ordinary shares issued and outstanding as of note issuance date), which should represent 32% of the total number of ordinary shares issued and outstanding as of the note issuance date on a fully diluted basis. The conversion price was subject to certain anti-dilution adjustments.

The Company had paid to the Note Holder an amount equivalent to 1% of the consideration of the principal amount of the convertible note as an up-front fee and total issue cost of the convertible note amounted to approximately HK$18,092,000 and was recognised in the consolidated income statement for the year ended 31 December 2006.

The principal terms of the convertible note are as follows:

(i) Maturity and interest rate

The maturity date of the convertible note was 7 November 2012, the sixth anniversary of the note issue date. Interest accrues from the note issue date until the note had been converted and/or the applicable redemption price was paid in full at the rate of 10% per annum on the outstanding principal of the convertible note. Interest was due and payable in arrears on each anniversary of the note issue date and should be calculated on the basis of 360-day year for the actual number of days elapsed. On maturity date, if the convertible note has not been converted and/or redeemed in full in accordance with the terms and conditions of the Convertible Note, the interest rate on any outstanding principal amount shall automatically be increased to 15% per annum (compounded annually) and this adjusted interest rate should apply retrospectively from the note issue date until the convertible note has been converted or redeemed in full.

30. CONVERTIBLE NOTE *(continued)*

(ii) Redemption terms of the convertible note

For the Loan Amount of the convertible note, the Company may redeem all or any portion at any time, but only once in each financial year of the Company, by repaying to the Note Holder the principal amount of such portion plus any accrued but unpaid interest thereon up to the date of such repayment.

For the Convertible Amount of the convertible note, redemption may take place after the first anniversary of the note issue date when the following conditions are met:

(a) The Note Holder and the Company agree in writing that no initial public offering ("IPO") will occur prior to the maturity date;

(b) The Note Holder has not elected to convert the Convertible Amount into ordinary shares in full; and

(c) The Note Holder is not able to obtain an offer from a third party for the purchase of the outstanding principal amount of the convertible note plus an annual return of more than 15% (compounded annually) on such outstanding principal amount from the note issue date to the date of payment.

If redemption takes place, the Company may redeem the outstanding Loan Amount and Convertible Amount of the convertible note in whole, but not in part, at a redemption price which is the sum of:

(a) The outstanding principal amount of the convertible note; and

(b) Interest accrued and calculated at the rate of 15% per annum on each portion to the principal amount of the convertible note repaid from the note issuance date to the date on which the then applicable redemption payment on such portion has been made in full or such portion has been converted in full, compounded annually, less the interest payments that have been made on the convertible note.

(iii) Conversion terms of the convertible note

The Note Holder shall have the right to convert the Convertible Amount at any time until the maturity of the convertible note. The convertible note is convertible into fully paid ordinary shares with a par value of HK$0.1 per share based on the formula below:

$$\text{Number of ordinary shares to be converted} = \frac{\text{Convertible Amount}}{\text{Conversion Price}}$$

30. CONVERTIBLE NOTE *(continued)*

(iii) Conversion terms of the convertible note *(continued)*

Upon the closing of an IPO, which shall be the date of issuance of shares to places pursuant to the applicable underwriting agreement, the Convertible Amount shall be automatically converted into such number of fully paid ordinary shares. Within 10 business days thereafter, the Company shall redeem the outstanding Loan Amount of the convertible note at a price equal to such outstanding Loan Amount plus accrued but unpaid interest on the convertible note.

The Convertible Amount contains four components including liability component, conversion option derivative, early redemption option and interest adjustment derivative and the Loan Amount contain three components including liability component, early redemption option and interest adjustment derivative. The effective interest rate of the liability component is 15.9%. The convertible note was measured at fair value with change in fair value recognised in profit or loss.

The fair value of the convertible note at the conversion date is determined based on the fair value of the shares issued and cash settled by the Company to the Note Holder, in aggregate of approximately US$150,999,000 (equivalent to approximately HK$1,177,793,000) and the convertible note at 31 December 2006 was valued at fair value by the directors with reference to a valuation report carried out by Sallmanns (Far East) Ltd., an independent and recognised international business valuers, at approximately US$100,000,000 (equivalent to approximately HK$780,004,000).

Upon listing of the Company's shares on 13 November 2007, all the Convertible Amount was automatically converted into 203,280,000 shares of the Company at a price of HK$4.1 each, amounting to approximately HK$833,448,000 and all the Loan Amount was redeemed together with interest on the note, amounting to approximately HK$344,345,000.

The increase in fair value of the convertible note of approximately US$50,999,000 (2006: US$12,000,000) (equivalent to approximately HK$348,571,000 (2006: HK$86,617,000)) has been recognised in the consolidated income statement.

31. DEFERRED TAX

The followings are the major deferred tax (liabilities) assets recognised and the movement thereon, during the year.

	Intangible assets	Property, plant and equipment	Prepaid lease payments	Borrowings	Deferred income	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	–	–	–	–	994	994
Credit to the income statement for the year	–	–	–	–	686	686
Exchange differences	–	–	–	–	48	48
At 31 December 2006 and 1 January 2007	–	–	–	–	1,728	1,728
Acquisitions of subsidiaries *(note 33)*	(3,476)	(2,412)	(21,302)	(1,033)	6,562	(21,661)
Credit to the income statement for the year	–	160	151	403	7,110	7,824
Effect of change in tax rate	–	–	–	–	474	474
Exchange differences	(61)	(70)	(452)	(44)	590	(37)
At 31 December 2007	**(3,537)**	**(2,322)**	**(21,603)**	**(674)**	**16,464**	**(11,672)**

Deferred tax liabilities and assets are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on new tax rates and tax laws that have been enacted.

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting presentation purposes:

	2007	2006
	HK$'000	*HK$'000*
Deferred tax assets	**12,149**	1,728
Deferred tax liabilities	**(23,821)**	–
	(11,672)	1,728

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32. SHARE CAPITAL

	Number of shares		Amount	
	2007	2006	**2007**	2006
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.1 each				
Authorised:				
At beginning of year	**3,800**	–	**380**	–
Ordinary shares of HK$0.1 each on incorporation *(Note a)*	**–**	3,800	**–**	**380**
Increase on 22 October 2007 *(Note c)*	**9,996,200**	–	**999,620**	–
At end of year	**10,000,000**	3,800	**1,000,000**	380
Issued and fully paid:				
At beginning of year	**1,000**	–	**100**	–
Ordinary shares of HK$0.1 on incorporation (*Note* a)	**–**	–	**–**	–
Issue of shares on 10 October 2006 *(Note b)*	**–**	1,000	**–**	100
Capitalisation issue *(Note c)*	**388,220**	–	**38,822**	–
Issue of shares upon conversion of convertible note *(Note d)*	**203,280**	–	**20,328**	–
Issue of shares on 13 November 2007 for the acquisitions of subsidiaries and associate *(Note e)*	**91,919**	–	**9,192**	–
Issue of shares on 13 November 2007 pursuant to IPO *(Note f)*	**288,000**	–	**28,800**	–
At end of year	**972,419**	1,000	**97,242**	100

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32. SHARE CAPITAL *(continued)*

Notes:

(a) The Company was incorporated on 12 July 2006 with an authorised share capital of HK$380,000. At the time of incorporation, 1 share of HK$0.1 was issued at par to the subscriber to provide the initial capital to Company.

(b) On 10 October 2006, 999,999 ordinary shares of HK$0.1 each were allotted and issued for cash at HK$102.5 per share.

(c) Pursuant to the written resolution of Highexcel Investment Limited, the then sole shareholder of the Company, on 22 October 2007, the authorised share capital was increased to HK$1,000,000,000. The directors of the Company were authorised to capitalise the sum of HK$38,822,000 and apply in paying up in full at par 388,220,000 shares for allotment and issue to the Shareholder whose name appeared on the register of members of the Company at the close of business on 22 October 2007 (or as he might direct) in proportion (as nearly as possible without involving fractions) to his then existing shareholdings in the Company and such shares to be allotted and issued shall rank pari passu in all respects with existing issued shares.

(d) Immediately prior to listing on 13 November 2007, the Company issued 203,280,000 shares to the Note Holder upon conversion of the Convertible Amount of the convertible note at a price of HK$4.1 per share, amounting to HK$833,448,000, the details of which have been set out in note 30.

(e) Upon listing on 13 November 2007, the Company issued 91,919,487 shares to Poly Hong Kong, at a price of HK$4.1 each, amounting to HK$376,870,000, as partial consideration in exchange for its equity interests in certain entities which have then become subsidiaries and an associate of the Company. Details are set out in notes 19 and 33 to the consolidated financial statements.

(f) On 13 November 2007, the Company issued 288,000,000 shares for cash pursuant to the IPO at a price of HK$4.1 each and listing of the Company's shares on the Stock Exchange.

33. ACQUISITION OF SUBSIDIARIES

(i) As disclosed in note 19 (iii), the Group obtained the power to control Suzhou Cogeneration Plant, accordingly, it is accounted for as a subsidiary of the Group since 13 March 2007. In the opinion of the directors, the fair value of net assets acquired approximated to the carrying amounts of those net assets at the acquisition date. The net assets of Suzhou Cogeneration Plant as of the date of transfer from an associate to a subsidiary are as follows:

	Carrying amounts of net assets approximate to fair value *HK$'000*
Property, plant and equipment	1,013,909
Prepaid lease payments	13,849
Inventories	16,187
Trade and other receivables	99,449
Amounts due from related companies	58,231
Bank balances and cash	97,262
Trade and other payables	(94,355)
Dividend payables to minority shareholders	(27,483)
Amounts due to related companies	(50)
Deferred income	(4,665)
Borrowings	(853,518)
Deferred tax liabilities	(2,552)
	316,264
Minority interests	(154,969)
Transfer from an associate to a subsidiary	161,295
Net Cash inflow arising from the acquisition:	
Cash and cash equivalents acquired	97,262

(ii) As disclosed in note 19(iv), the total consideration for Poly Acquisition amounted to approximately HK$426,870,000, satisfied by 91,919,487 new shares issued by the Company at HK$4.1 each at the same date of IPO and, amounting to approximately HK$376,870,000 together with cash of HK$50,000,000 resulting in goodwill on acquisition of Dongtai Cogeneration Plant, Jiaxing Cogenartion Plant, Peixian Cogenartion Plant and Xuzhou Cogneration Plant of approximately HK$122,334,000 and discount on acquisition of Taicang Poly Cogneration Plant of approximately HK$3,271,000.

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For the year ended 31 December 2007

33. ACQUISITION OF SUBSIDIARIES *(continued)*

(ii) *(continued)*

The net assets acquired from Poly Acquisition to the Group as of the date of acquisition are as follows:

	Carrying amounts in the book of acquiree before acquisition *HK$'000*	Fair value adjustments *HK$'000*	Fair value *HK$'000*
Property, plant and equipment	1,124,206	7,700	1,131,906
Prepaid lease payments	58,960	82,343	141,303
Interest in an associate	39,416	7,848	47,264
Available-for-sale investments	168	–	168
Goodwill	9,958	–	N/A
Other intangible assets	8,255	1,492	9,747
Deferred tax assets	5,862	–	5,862
Inventories	35,622	–	35,622
Trade and other receivables	125,096	–	125,096
Amounts due from related companies	22,102	–	22,102
Pledged bank deposits	55,029	–	55,029
Bank balances and cash	54,745	–	54,745
Trade and other payables	(164,769)	–	(164,769)
Tax payables	(1,326)	–	(1,326)
Dividend payables to minority shareholders	(12,587)	–	(12,587)
Amounts due to related companies	(26,788)	–	(26,788)
Deferred income	(24,460)	–	(24,460)
Borrowings	(781,844)	–	(781,844)
Deferred tax liabilities	(2,212)	(21,495)	(23,707)
	525,433	77,888	593,363
Goodwill			122,334
Discount on acquisition			(3,271)
Minority interests			(26,444)
Revaluation reserve on previously held interests			(6,698)
Interests in associates			(252,414)
			426,870
Total consideration satisfied by:			
Cash			50,000
Fair value of shares issued			376,870
			426,870
Net cash inflow arising on acquisitions:			
Cash consideration paid			(50,000)
Cash and cash equivalents acquired			54,745
			4,745

33. ACQUISITION OF SUBSIDIARIES *(continued)*

(iii) On 19 November 2007 and 29 November 2007, the Group aggregately acquired 100% equity interests of Tongxiang Puyuan Xiexin Environmental Protection Cogeneration Co., Ltd. 桐鄉濮院協鑫環保熱電有限公司 ("Puyuan Cogeneration Plant") from companies controlled by a shareholder of the Company for a total consideration of HK$95,507,000. In the opinion of the directors, the fair value of net assets acquired approximated to the carrying amounts of those net assets at the acquisition date. The acquisition has been accounted for using the purchase method. The discount on acquisition of approximately HK$4,099,000 is credited directly to equity of the Group as a capital contribution from a shareholder.

The net assets of Puyuan Cogeneration Plant at the date of acquisition are as follows:

	Carrying amounts of net assets approximate to fair value
	HK$'000
Property, plant and equipment	276,510
Prepaid lease payments	14,855
Other intangible assets	5,836
Inventories	5,564
Trade and other receivables	48,944
Bank balances and cash	4,770
Trade and other payables	(50,411)
Amounts due to related companies	(47,318)
Borrowings	(157,880)
Deferred tax liabilities	(1,264)
	99,606
Discount on acquisition directly to equity	(4,099)
	95,507
Total consideration satisfied by:	
Cash	95,507
Net cash outflow arising on acquisition:	
Cash consideration paid	(95,507)
Cash and cash equivalents acquired	4,770
	(90,737)

33. ACQUISITION OF SUBSIDIARIES *(continued)*

(iv) On 30 November 2007, the Group acquired 100% equity interests of 蘇州保利協鑫燃料有限公司 ("Suzhou Fuel Company") from a company controlled by a shareholder of the Company for a consideration of HK$14,062,000. In the opinion of the directors, the fair value of net assets acquired approximated to the carrying amounts of those net assets at the acquisition date. The acquisition has been accounted for using the purchase method. The discount on acquisition of approximately HK$1,939,000 is credited directly to equity of the Group as a capital contribution from a shareholder.

The net assets of Suzhou Fuel Company as of the date of acquisition are as follows:

	Carrying amounts of net assets approximate to fair value
	HK$'000
Property, plant and equipment	1,080
Inventories	9,588
Trade and other receivables	66,566
Amounts due from related companies	42,687
Bank balances and cash	11,972
Trade and other payables	(56,625)
Amounts due to related companies	(37,230)
Tax Payable	(986)
Borrowings	(21,051)
	16,001
Discount on acquisition directly to equity	(1,939)
	14,062
Total consideration satisfied by:	
Cash	14,062
Net cash outflow arising on acquisition:	
Cash consideration paid	(14,062)
Cash and cash equivalents acquired	11,972
	(2,090)

33. ACQUISITION OF SUBSIDIARIES *(continued)*

The subsidiaries acquired contributed HK$10 million to the Group's profit for the period between the date of acquisitions and the balance sheet date.

If the acquisitions had been completed on 1 January 2007, total group revenue for the year would have been HK$2,614 million, and loss for year would have been HK$182 million. The proforma information is for illustrative purposes only and is not necessarily an indicator of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2007, nor is it intended to be a projection of future results.

34. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2006, the Group injected HK$19,110,000 as its share of the increase in registered capital of Taicang Poly Cogeneration Plant, an associate of the Group in 2006. The additional capital injection was paid by the immediate holding company of the Company on behalf of the Group. Accordingly, the additional investment in Taicang Poly Cogeneration Plant was deemed as contribution from a shareholder and was credited to equity directly. Details of which were set out in note 19.

On 13 November 2007, the company issued 91,919,487 new shares at HK$4.1 each amounting to approximately HK$376,870,000 as partial consideration to Poly Hong Kong for acquisition of equity interests in certain subsidiaries and an associate as set out in note 32.

35. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

	2007 ***HK$'000***	2006 *HK$'000*
Guarantees given to banks to secure credit facilities fully utilised by associates and a related company	–	101,988

As at 31 December 2006, the Group had given guarantees to certain banks for banking facilities granted to associates and a related company, in which a director of the Company had beneficial interests at no cost. These guarantees have been released by the day of listing of the shares of the Company on the Stock Exchange.

The fair value of the financial guarantees at date of inception is immaterial.

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36. OPERATING LEASES

The Group as lessee

	2007	2006
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases in the year:		
Buildings	**6,153**	118
Staff quarters	**499**	134
Motor vehicles and other assets	**426**	12
Natural gas transmission network	**6,842**	–
Land use rights	**–**	20
	13,920	284

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

	2007	2006
	HK$'000	*HK$'000*
Within one year	**6,168**	29
In the second to fifth years inclusive	**6,360**	5
After five years	**50**	–
	12,578	34

Operating lease payments represent rental payables by the Group for certain properties, motor vehicles and other assets. Leases are negotiated and rentals are fixed for terms from one to three years.

36. OPERATING LEASES *(continued)*

The Group as lessor

	2007	2006
	HK$'000	*HK$'000*
Rental income credited to the income statement during the year:		
Grid transmission networks	**3,934**	2,473
Staff quarters	**74**	–
Motor vehicles	**124**	–
Land use rights	**–**	520
	4,132	2,993

At the balance sheet date, the Group had contracted with tenants for the future minimum lease payments.

	2007	2006
	HK$'000	*HK$'000*
Within one year	**147**	175
In the second to fifth years inclusive	**588**	673
After five years	**2,004**	1,609
	2,739	2,457

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37. CAPITAL COMMITMENTS

	2007 HK$'000	2006 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	**130,085**	20,770
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	**133,500**	113,839

Other commitments:

(i) As at 31 December 2007, the Group has contracted to purchase a 49% equity interest in 華潤協鑫(北京)熱電有限公司 China Resources Golden Concord (Beijing) Co-generation Power Co., Ltd. for a consideration of RMB145,788,000 (approximately HK$155,702,000). The purchase has been completed in January 2008.

(ii) As at 31 December 2007, the Group has contracted to purchase the entire equity interest in 錫林郭勒國泰風力發電有限公司 Xi Lin Guo Le Goutai Wind Power Generation Co., Ltd. ("Huitengliang Project Company"), a company established in the PRC to invest in the development of a wind farm project in the Inner Mongolia, the PRC, for a consideration of RMB20,014,000 (approximately HK$22,000,000). Upon completion of the acquisition, the Group will as a sole equity holder inject additional capital of RMB100,000,000 (approximately HK$106,800,000) into the company.

38. SHARE BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme:

Pursuant to a written resolution of the sole shareholder on 22 October 2007, a share option scheme ("Pre-IPO Share Option Scheme") was adopted by the Company. Pursuant to the Pre-IPO Share Option Scheme, the Company may grant options to the employees of the Company or of its subsidiaries to subscribe for shares of the Company.

The total number of shares may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 31,260,000 shares representing approximately 3.2% of the enlarged issued share capital of the Company as at 31 December 2007. The estimated fair value of the options at the date of grant is HK$55,100,000.

Details of the share options which were granted under the Pre-IPO Scheme and remained outstanding as at 31 December 2007 are as follows:

	Date of grant	Exercise price per share	Exercisable period	Vesting period	Options granted during the year	Options outstanding as at 31 December 2007
Directors	13 November 2007	HK$4.1	13 November 2010 to 12 November 2017	*Note*	9,180,000	9,180,000
Employees under continuous employment contract	13 November 2007	HK$4.1	13 November 2010 to 12 November 2017	*Note*	22,080,000	22,080,000
					31,260,000	31,260,000

38. SHARE BASED PAYMENT TRANSACTIONS *(continued)*

Note:

On or before 12 November 2010, no options granted to the directors and/or employees shall vest.

During the period from 13 November 2010 to 12 November 2011, a cumulative maximum of 20% of the share options granted to the directors and/or employees shall vest.

During the period from 13 November 2011 to 12 November 2012, a cumulative maximum of 50% of the share options granted to the directors and/or employees shall vest.

During the period from 13 November 2012 to 12 November 2013, a cumulative maximum of 100% of the share options granted to the directors and/or employees shall vest.

The fair value of the options has been estimated using the Binominal model. The inputs into the model are as follows:

	2007
Market price	HK$4.10
Exercise price	HK$4.10
Expected volatility	44.68%
Expected life	3-5 years
Risk-free rate	3.47%
Expected dividend yield	1.50%

Expected volatility was determined by using the volatility of the stock return of comparable listed companies as at the valuation date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$2,201,000 for the year ended 31 December 2007 in relation to share options granted by the Company.

Binomial 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.

39. RETIREMENT BENEFITS SCHEME

(a) The PRC

The Group's full-time employees in the PRC are covered by a government sponsored defined contribution pension scheme, and are entitled to a monthly pension from their retirement dates. The PRC Government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plan at a rate of 16.4% to 23% of employees' salaries, which are charged to operations as an expense when the contributions are due.

(b) Hong Kong

The Group participates in a pension scheme, which was registered under the Mandatory Provident Fund Scheme Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme and is funded by contributions from employers and employees according to the provisions of the MPF Ordinance.

During the year, the total amounts contributed by the Group to the scheme in Hong Kong and charged to the consolidated income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme are as follows:

	2007	2006
	HK$'000	*HK$'000*
Amount contributed and charged to the consolidated income statement	**171**	–

40. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2007, the Group have completed the acquisitions of 49% equity interest in Beijing Cogeneration Plant in January 2008 and the entire interest in Huitengliang Project Company in March 2008.

On 29 February 2008, the Group served a written notice to a company controlled by a shareholder, notifying that it decides not to exercise an option and a right of first refusal amongst others granted under a non-competition deed dated 27 October 2007, to acquire 70% equity interest in Lianyungang Baoxin Biomass Cogeneration Plant. Details are set out in the Company's announcement dated 3 March 2008.

On 29 February 2008, the Group entered into a legally binding conditional framework agreement with an independent third party for (i) the acquisition of 70% equity interest in 臨滄潤達水電有限公司 Lincang Runda Hydropower Company Limited, a joint venture company established in the PRC engaged in operating hydropower plants in Yunnan, the PRC for an estimated consideration of RMB35,700,000 (approximately HK$38,387,000) subject to due diligence and further negotiations and (ii) proposed joint investment in certain other hydropower plants. Details are set out in the Company's announcement dated 29 February 2008.

41. RELATED PARTY TRANSACTIONS

Apart from details of the balances with related parties disclosed in the consolidated balance sheet and in note 27, and transactions with related parties disclosed in notes 19, 28, 33 and 34, the Group had also entered into the following significant transactions with related parties during the year.

	2007 **HK$'000**	2006 HK$'000
Transactions with related companies in which directors of the Company have beneficial interests:		
Construction related services	**11,088**	5,805
Purchase of property, plant and equipment and construction in progress	**976**	7,359
Purchase of consumables and spare parts	**1,016**	2,256
Consultancy service fee income	**–**	2,555
Purchase of coal	**352,151**	258,428
Sale of coal	**3,663**	–
Sales of scrap materials	**–**	488
Rental expense	**11,544**	–
Proceeds on transfer of property, plant and equipment	**–**	447
Management fee income	**11,115**	804
Office expense	**1,627**	1,604
Service fee expense	**1,369**	–
Transactions with associates:		
Purchase of coal	**1,032**	–
Sale of coal	**1,783**	–
Proceeds on transfer of property, plant and equipment	**–**	388
Service fee income	**2,956**	670
Transactions with minority shareholders of a subsidiary:		
Purchase of coal	**8,780**	–

Compensation of key management personnel

The remuneration of directors and other members of key management was as follows:

	2007 **HK$'000**	2006 HK$'000
Salaries and other allowances	**5,983**	1,852
Retirement benefits scheme contributions	**113**	58
	6,096	1,910

The remuneration of directors and key executives is determined by having regard to the performance of individuals and market trends.

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42. GOVERNMENT GRANTS INCOME

	2007 ***HK$'000***	2006 *HK$'000*
Incentive subsidies *(Note a)*	**31,081**	10,052
Value-added tax refund related to expenses *(Note b)*	**12,726**	6,150
Amounts credited to consolidated income statement	**43,807**	16,202
Value-added tax refund related to depreciable assets *(note 17) (Note c)*	**14,308**	5,738
Total government grants income	**58,115**	21,940

Notes:

(a) Incentive subsidies were received from the relevant PRC Government to encourage the operations of certain PRC subsidiaries for the growth in supply of electricity and development of environmental friendly electricity generation. There were no specific conditions attached to the grants and, therefore, the Group recognised the grants upon receipt. The subsidies were granted on a discretionary basis to the Group during the year.

(b) During the years ended 31 December 2007 and 2006, the Group received refund of value-added tax from the relevant PRC Tax Authority for purchasing environmental friendly raw materials. They were granted if the total environmental friendly raw materials consumed represented more than 60% of total raw materials of PRC subsidiaries. There were no other specific conditions attached to the grants and, therefore, the Group recognised the grants upon receipt. The directors believe that the Group can continue maintaining the usage of environmental friendly materials.

(c) The refund of value-added tax on purchases of depreciable assets has been deducted from the carrying amount of the relevant assets. The amount is transferred to income in the form of reduced depreciation charges over the useful lives of the relevant assets. This policy has resulted in a reduction of depreciation charges by approximately HK$775,000 for the year ended 31 December 2007 (2006: HK$728,000). As at 31 December 2007, an amount of approximately HK$26,897,000 (2006: HK$13,365,000) remains to be amortised.

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43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of subsidiaries	Date of incorporation/ establishment/ registration	Place of incorporation/ establishment registration	Issued and fully paid share/ registered capital	Attributable equity interest of the Group % At 31 December 2007	2006	Principal activity
寶應協鑫生物質發電有限公司[1] Baoying Xiexin Biomass Electric-Power Co., Ltd.*	27 February 2004	PRC	US$8,000,000	**100**	100	Operation of a power station
連雲港協鑫生物質發電有限公司 Lianyungang Xiexin Biomass Electric-power Generation Co., Ltd.*[1]	4 March 2004	PRC	RMB66,000,000	**100**	100	Operation of a power station
如東協鑫環保熱電有限公司 Rudong Golden Concord Environmental Protection Cogen-Power Co., Ltd.*[1]	21 November 2003	PRC	RMB66,400,000	**100**	100	Operation of a power station
太倉協鑫垃圾焚燒發電有限公司 Taicang Xiexin Refuse Incineration Power Co., Ltd.*[2]	14 June 2004	PRC	RMB50,000,000	**100**	100	Operation of a power station
Huzhou Golden Concord Environmental Protection Cogen-Power Co., Ltd.[3] 湖州協鑫環保熱電有限公司	16 October 2003	PRC	US$8,000,000	**94.77**	94.77	Operation of a power station
Fengxian Xinyuan Biological Environmental Heat and Power Co., Ltd[3] *(Note a)* 豐縣鑫源生物質環保熱電有限公司	6 June 2004	PRC	RMB66,000,000	**51**	51	Operation of a power station
Haimen Xinyuan Environmental Protection Co-generation Co., Ltd.[3] 海門鑫源環保熱電有限公司	30 December 2002	PRC	US$8,000,000	**51**	51	Operation of a power station

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43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

Name of subsidiaries	Date of incorporation/ establishment/ registration	Place of incorporation/ establishment registration	Issued and fully paid share/ registered capital	Attributable equity interest of the Group % At 31 December 2007	2006	Principal activity
Kunshan Xinyuan Environmental Protection Cogen-Power Co., Ltd.[3] *(Note a)* 昆山鑫源環保熱電有限公司	21 August 2002	PRC	RMB116,200,000	**51**	51	Operation of a power station
Yangzhou Harbour Sludge Cogen-Power Co., Ltd.[3] *(Note a)* 揚州港口污泥發電有限公司	3 January 2003	PRC	US$14,068,000	**51**	51	Operation of a power station
上海保利協鑫電力運行管理有限公司[6] Shanghai GCL-Poly Electricity Operating Management Co., Ltd.*	12 October 2006	PRC	RMB1,000,000	**100**	100	Provision of management services
宏成投資有限公司 Hugesuccess Investments Limited	28 April 2006	British Virgin Islands ("BVI")	US$1	**100**	100	Investment holding
智能投資有限公司 Wise Able Investments Limited	22 March 2006	BVI	US$1	**100**	100	Investment holding
桐鄉市烏鎮協鑫熱力有限公司[3] Tongxiang City Wu Town Xiexin Thermal Power Company Limited	2 February 2007	PRC	RMB3,000,000	**94.77**	N/A[5]	Trading of steam
連雲港鑫能污泥發電有限公司[4] Lianyungang Xinneng Sludge Power Co., Ltd.* *(Note b)*	19 October 2006	PRC	US$6,200,000	**100**	–	Operation of a power station
榮栢投資有限公司 Winpak Investment Limited *(Note b)*	31 August 2006	Hong Kong	HK$1	**100**	–	Investment holding

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43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

Name of subsidiaries	Date of incorporation/ establishment/ registration	Place of incorporation/ establishment registration	Issued and fully paid share/ registered capital	Attributable equity interest of the Group % At 31 December 2007	2006	Principal activity
Suzhou Industrial Park Blue Sky Gas Cogen-Power Co., Ltd.[3] 蘇州工業園區藍天燃氣熱電有限公司	30 December 2003	PRC	RMB300,000,000	**51**	51	Operation of a power station
Dongtai Suzhong Environmental Protection Co-generation Co., Ltd.[4] 東台蘇中環保熱電有限公司	15 May 2001	PRC	US$8,000,000	**100**	49.9	Operation of a power station
嘉興協鑫環保熱電有限公司[3] Jia Xing Environmental Protection Co-Power Co., Ltd.*	26 September 2003	PRC	RMB66,400,000	**95**	44	Operation of a power station
Peixian Mine-site Environmental Cogen-Power Co., Ltd.[1] 沛縣坑口環保熱電有限公司	16 August 2000	PRC	US$8,000,000	**100**	49.9	Operation of a power station
Taicang Poly Xiexin Thermal Power Co., Ltd.[1] 太倉保利協鑫熱電有限公司	4 November 1996	PRC	US$15,200,000	**100**	49	Operation of a power station
Xuzhou Baoxin Sludge Power Co., Ltd.[3] 徐州保鑫污泥發電有限公司	23 December 2001	PRC	RMB99,200,000	**75**	38.25	Operation of a power station
Tongxiang Puyuan Xiexin Environmental Protection Cogeneration Co., Ltd.[4] 桐鄉濮院協鑫環保熱電有限公司	18 April 2006	PRC	US$14,800,000	**100**	–	Operation of a power station
Suzhou GCL-Poly Power Fuel Co., Ltd.[4] 蘇州保利協鑫燃料有限公司	22 December 2006	PRC	US$1,250,000	**100**	–	Coal trading

* *For identification only*

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(continued)*

1. These companies were established in the PRC in the form of sino-foreign equity joint venture enterprise and approved to be converted into wholly foreign-owned enterprise upon the Corporate Reorganisation.

2. These companies were established in the PRC in the form of domestic-invested company and approved to be converted into wholly foreign-owned enterprise upon the Corporate Reorganisation.

3. These companies were established in the PRC in the form of sino-foreign equity joint venture enterprise.

4. These companies were established in the PRC in the form of wholly foreign-owned enterprise.

5. The company was not established at the balance sheet date.

6. The company was established in the PRC in the form of domestic-invested company.

Notes:

a. The Group holds 51% equity interests in Fengxian Cogeneration Plant, Yangzhou Cogeneration Plant and Kunshan Cogeneration Plant. The Group had the right to appoint six over eleven directors of Fengxian Cogeneration Plant and Yangzhou Cogeneration Plant and had the right to appoint five over eleven directors of the Kunshan Cogeneration Plant. Under the articles of associations of these 3 entities, the passing of the ordinary resolutions at the board meetings required two-thirds of the directors attending the meetings while the Group has not held two-thirds directors in these 3 entities. However, the Group has obtained confirmations from all minority shareholders from each of these 3 entities confirming that the Group effectively has the right to control over the financial and operating activities and therefore the 3 entities are regarded as subsidiaries of the Group.

   During the year, the Group also amended the articles of association of three entities and accordingly, the Group has the right to appoint a majority of the directors of the respective boards of directors which is required to pass all matters (subject to some exceptions as required under the PRC Law).

b. Build Result held 100% equity interests in Winpak which in turns held 100% equity interest in Xinneng Cogeneration Plant. The registered shareholder of Build Result was Mr. Li Jian who held the shares of Build Result on trust for Mr. Zhu. In this regard, Build Result, Winpak and Xinneng Cogeneration Plant were accounted for as subsidiaries of the Company since their dates of incorporation/establishment as the Company has the power to govern the financial and operating policies of these entities so as to obtain benefits form the their activities. The ownership of the investments in Winpak and Xinneng Cogeneration Plant were legally transferred to the Group on 3 December 2007.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

Corporate Information

CHAIRMAN

Zhu Gong Shan

PRESIDENT

Sha Hong Qiu

EXECUTIVE DIRECTORS

Zhu Gong Shan
Sha Hong Qiu
Ji Jun
Shu Hua
Yu Bao Dong
Sun Wei
Lau Wai Yip

NON-EXECUTIVE DIRECTOR

Law Ryan Wing Cheung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Heng Kwoo Seng
Qian Zhi Xin
Raymond Ho Chung Tai
Xue Zhong Su

COMPOSITION OF BOARD COMMITTEES

Audit Committee

Heng Kwoo Seng *(Chairman)*
Qian Zhi Xin
Raymond Ho Chung Tai

Remuneration Committee

Raymond Ho Chung Tai *(Chairman)*
Heng Kwoo Seng
Qian Zhi Xin

Strategic Planning Committee

Raymond Ho Chung Tai *(Chairman)*
Zhu Gong Shan
Sha Hong Qiu
Xue Zhong Su
Qian Zhi Xin
Ji Jun

COMPANY SECRETARY

Lau Wai Yip

QUALIFIED ACCOUNTANT

Lau Wai Yip

AUTHORIZED REPRESENTATIVES

Yu Bao Dong
Lau Wai Yip

AUDITOR

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

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 3601-4, Two Exchange Square
8 Connaught Road Central
Hong Kong

COMPLIANCE ADVISER

CCB International Capital Limited
Suite 3408, 34th Floor, Two Pacific Place
88 Queensway
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705
Grand Cayman, KY1-1107
Cayman Islands

Corporate Information

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISERS TO THE COMPANY

As to Hong Kong law

Gordon Ng & Co in association with Hogan & Hartson LLP
Suite 2101, Two Pacific Place
88 Queensway
Hong Kong

As to Cayman Islands law

Conyers Dill & Pearman
Cricket Square, Hutchins Drive
Grand Cayman, KY1-1111
Cayman Islands

As to PRC law

Grandall Legal Group (Beijing)
9th Floor, Tower E, Royal Palace
6 Gong Yuan Xi Jie
Dongcheng District
Beijing, 100005
PRC

COMPANY WEBSITE

www.gcl-poly.com.hk

Information for Investors

LISTING INFORMATION

Listing: Mainboard of the Stock Exchange
Stock code: 3800

KEY DATES

10 April 2008
Announcement of 2007 Final Results
30 May 2008
Annual General Meeting

SHARE INFORMATION

Board lot size:
1,000 shares
Shares outstanding as at 31 December 2007:
972,419,487 shares
Market capitalization as at 31 December 2007:
HK$3,637 million

ENQUIRIES CONTACT

Investor Relations Department
Telephone: (852) 2526 8368
Fax: (852) 2526 7638
e-mail: info@gcl-poly.com.hk
Suites 3601-4
Two Exchange Square
8 Connaught Road Central
Hong Kong

Glossary of Terms

"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Baoying Cogeneration Plant"	寶應協鑫生物質發電有限公司 (Baoying Xiexin Biomass Electric-Power Co., Ltd.*)
"Board" or "Board of Directors"	our board of Directors
"China" or "PRC"	the People's Republic of China, but for the purposes of this annual report, excluding Hong Kong
"China Resources Beijing Cogeneration Plant"	華潤協鑫(北京)熱電有限公司 (China Resources Golden Concord (Beijing) Co-generation Power Co., Ltd.*)
"Company" or "GCL-Poly"	GCL-Poly Energy Holdings Limited
"Connected Person"	has the meaning ascribed thereto in the Listing Rules
"Controlling Shareholder"	has the meaning ascribed thereto in the Listing Rules
"Convertible Note"	the convertible redeemable note with a principal amount of USD88 million issued by the Company to MS China 3 Limited, on 7 November 2006
"Corporate Reorganisation"	the corporate reorganisation of our Group conducted in preparation for the Listing, details of which are set out in the section entitled "History, Development and Reorganisation – Reorganisation" in the Prospectus
"Director(s)"	director(s) of the Company or any one of them
"Dongtai Cogeneration Plant"	東台蘇中環保熱電有限公司 (Dongtai Suzhong Environmental Protection Co-generation Co., Ltd.)
"Fengxian Cogeneration Plant"	豐縣鑫源生物質環保熱電有限公司 (Fengxian Xinyuan Biological Environmental Heat and Power Co., Ltd.)
"Funing Cogeneration Plant"	阜寧協鑫環保熱電有限公司 (Funing Golden Concord Environmental Protection Co-generation Co., Ltd.)
"GCL (Hong Kong)"	Golden Concord Holdings Limited (協鑫集團控股有限公司), incorporated in Hong Kong and wholly owned by Mr. Zhu
"Group"	the Company and its subsidiaries
"Guohua Taicang Power Plant"	國華太倉發電有限公司Guohua Taicang Power Generation Co., Ltd.

Glossary of Terms

"Guangzhou Yonghe Project"	a project to develop a gas-fired cogeneration plant in Guangdong Province pursuant to the approval issued by the provincial Development and Reform Committee of Guangdon Province dated 23 April 2007
"Haimen Cogeneration Plant"	海門鑫源環保熱電有限公司 (Haimen Xinyuan Environmental Protection Co-generation Co., Ltd.)
"Huitengliang Project Company"	錫林郭勒國泰風力發電有限公司 (Xi Lin Guo Le Guotai Wind Power Generation Co Ltd*)
"Huzhou Cogeneration Plant"	湖州協鑫環保熱電有限公司 (Huzhou Golden Concord Environmental Protection Cogen-Power Co., Ltd.)
"IFRS"	the International Financial Reporting Standards
"Independent Board Committee"	an independent board committee established by the Company, which consists of all independent non-executive Directors from time to time
"INEDs"	Independent Non-executive Directors
"IPO"	the initial public offering and listing of Shares of the Company on the main board of the Stock Exchange on 13 November 2007
"Jiaxing Cogeneration Plant"	嘉興協鑫環保熱電有限公司 (Jia Xing Environmental Protection Cogen-Power Co., Ltd.*)
"Kunshan Cogeneration Plant"	昆山鑫源環保熱電有限公司 (Kunshan Xinyuan Environmental Protection Cogen-Power Co., Ltd.)
"Lanxi Cogeneration Plant"	蘭溪協鑫環保熱電有限公司 (Lanxi Golden Concord Environmental Protection Cogen-Power Co., Ltd*)
"Lianyungang Baoxin Biomass Cogeneration Plant"	連雲港保鑫生物質熱電有限公司 (Lianyungang GCL-Poly Biological Environmental Protection Co-generation Co., Ltd.*)
"Lianyungang Xiexin Cogeneration Plant"	連雲港協鑫生物質發電有限公司 (Liangyungang Xiexin Biomass Electric-Power Generation Co., Ltd.*)
"Lincang Runda Hydropower Plant"	臨滄潤達水電有限公司 (Lincang Runda Hydropower Company Limited*)

Glossary of Terms

"Listing"	listing of the Shares on the Stock Exchange pursuant to the IPO
"Listing Date"	13 November 2007
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Longgu Cogeneration Plant"	徐州龍固坑口矸石發電有限公司 (Xuzhou Longgu Mine-site Gangue Power Generation Co., Ltd.*)
"Main Board"	the Main Board of the Stock Exchange
"Management Company"	上海保利協鑫電力運行管理有限公司 (Shanghai GCL-Poly Electricity Operating Management Co., Ltd.*)
"Mr. Zhu"	朱共山 (Mr. Zhu Gong Shan), a Controlling Shareholder and a director of the Company
"Nanjing Cogeneration Plant"	南京協鑫生活污泥發電有限公司 (Nanjing Xiexin Life Sludge Power Co., Ltd.)
"Non-competition Deed"	the deed of non-competition undertaking dated 27 October 2007 entered into between Highexcel Investments Limited, Mr. Zhu and Mr. Zhu Yu Feng
"Peixian Cogeneration Plant"	沛縣坑口環保熱電有限公司 (Peixian Mine-site Environmental Cogen-Power Co., Ltd.)
"Poly Acquisitions"	the acquisition of the indirect interests held by Poly Group in each of Dongtai Cogeneration Plant, Taicang Poly Cogeneration Plant, Peixian Cogeneration Plant, Xuzhou Cogeneration Plant, Jiaxing Cogeneration Plant and Funing Cogeneration Plant on the Listing Date
"Poly Group"	Poly (Hong Kong) Investments Limited and/or its subsidiaries
"Prospectus"	the prospectus of the Company dated 31 October 2007 issued in connection with IPO
"Puyuan Cogeneration Plant"	桐鄉濮院協鑫環保熱電有限公司 (Tongxiang Puyuan Xiexin Environmental Protection Cogeneration Co., Ltd.)
"Rudong Cogeneration Plant"	如東協鑫環保熱電有限公司 (Rudong Golden Concord Environmental Protection Cogen-Power Co. Ltd.*)

Glossary of Terms

"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"Shares"	ordinary shares in the share capital of the Company, with a nominal value of HK$0.10 each
"Suzhou Cogeneration Plant"	蘇州工業園區藍天燃氣熱電有限公司 (Suzhou Industrial Park Blue Sky Gas Cogen-Power Co., Ltd.)
"Suzhou Fuel Company"	蘇州保利協鑫燃料有限公司 (Suzhou GCL-Poly Power Fuel Co., Ltd.)
"Taicang Harbour Power Plant"	太倉港協鑫發電有限公司 (Taicang Harbour Golden Concord Electric-Power Generation Co., Ltd.)
"Taicang Incineration Plant"	太倉協鑫垃圾焚燒發電有限公司 (Taicang Xiexin Refuse Incineration Power Co. Ltd.*)
"Taicang Poly Cogeneration Plant"	太倉保利協鑫熱電有限公司 (Taicang Poly Xiexin Thermal Power Co., Ltd.)
"Xinneng Cogeneration Plant"	連雲港鑫能污泥發電有限公司 formerly known as 連雲港鑫能熱電有限公司 (Lianyungang Xinneng Sludge Power Co., Ltd.*)
"Xuzhou Cogeneration Plant"	徐州保鑫污泥發電有限公司 formerly known as 徐州西區環保熱電有限公司(Xuzhou Baoxin Sludge Power Co., Ltd.)
"Yangzhou Cogeneration Plant"	揚州港口污泥發電有限公司 formerly known as 揚州港口環保熱電有限公司(Yangzhou Harbour Sludge Cogen-Power Co., Ltd.*)

* *for identification only*

保利協鑫

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