

Enerchina

Holdings Limited

威華達控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 622

Interim Report

08

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-executive Director

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

Independent Non-executive Directors

Lu Yungang
Davin A. Mackenzie
Xin Luo Lin

Authorised Representatives

Tang Yui Man Francis
Xiang Ya Bo

Audit Committee

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

Remuneration Committee

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

Qualified Accountant

Lam Yuen Ming

Company Secretary

Lo Tai On

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business

28th Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

Telephone : (852) 2521 1181
Facsimile : (852) 2851 0970
Stock Code : 622
Website : <http://www.enerchina.com.hk>
<http://www.irasia.com/listco/hk/enerchina>

Auditor

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

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar

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

Hong Kong Branch Share Transfer Office

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

Legal Advisors

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

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

(*As to the PRC law*)

Haiwen & Partners

Principal Bankers

Bank of China (Hong Kong) Limited
China Construction Bank
Hang Seng Bank Limited
Shenzhen Development Bank Co., Ltd.
China Merchants Bank
UBS AG

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FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2008

- Group's turnover from continuing operation decreased by 2.2% to HK\$603.8 million
- Group's gross profit from continuing operation decreased by 45.4% to HK\$31.7 million
- Net profit attributable to the equity holders of the Company increased by 128.9% to HK\$12.3 million
- Earnings per share of HK0.26 cents

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in electricity generation and the sale of electricity, and through Towngas China Company Limited (Stock code: 1083, "Towngas China"), the sales and distribution of Liquefied Petroleum Gas ("LP Gas") and piped gas, and gas pipelines construction. The gas fuel business operation was discontinued on 28 February 2007 upon the completion of the agreement entered into between the Company, Towngas China and Hong Kong & China Gas (China) Limited ("HKCG") announced on 4 December 2006.

For the six months ended 30 June 2008, the Group recorded a turnover of HK\$603.8 million, representing a decrease of 2.2% as compared to the same period last year. Gross profit from continuing operation decreased to HK\$31.7 million for the six months ended 30 June 2008, a decrease of 45.4% as compared to the same period last year. This was mainly due to the soaring fuel cost for the period.

The Group's unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2008 amounted to HK\$12.3 million, a 128.9% improvement as compared to last year's loss of HK\$42.5 million. This is mainly due to the net effect of (i) the rise in cost of the Group driven by heavy oil price; (ii) the receipt from insurance compensation due to the machinery breakdown increased by HK\$24.7 million to HK\$28.9 million; (iii) the loss of change in fair value of investments held for trading amounted to HK\$23.3 million, as compared to a gain of HK\$14.9 million in the corresponding period last year; and (iv) the loss from discontinued operations of HK\$108.6 million in last period.

Overview of Electricity Generation Business

During the year, the Group's on-grid electricity generation amounted to 885.8 million kWh, representing a decrease of 10.7% as compared to 991.9 million kWh over the corresponding period last year. This was mainly caused by the fluctuating heavy oil price and deferred subsidies during the period. Hence, the overall electricity generation was minimized in June 2008. As a result, after the exchange translation difference of Renminbi and Hong Kong dollars, the turnover of on-grid electricity decreased by 2.2% to HK\$603.8 million.

Direct operating expenses attributable to electricity supplies increased by 2.3% to HK\$572.0 million. During the period, the Group incurred a total fuel cost, after offsetting the subsidies, amounting to HK\$496.5 million. The Group was granted an amount of HK\$303.5 million as subsidies, in compensation for the high fuel cost, by the Shenzhen Government for the period from December 2007 to May 2008. The subsidy is to ensure the power plant to maintain its operation in times of rising heavy oil cost.

The staggeringly high world crude oil price had significantly pushed up the price of heavy oil, thus, putting the Group's power generation business under enormous pressure. Despite management's efforts in improving productivity, strengthening fuel procurement and inventory control, the gross profit margin of the power generation business for the period decreased to 5.3% as compared to 9.4% in the same period last year.

After the completion of modifying the two 180 MW power generator units with dual-fuel firing capabilities and constructing of the natural gas pipeline connecting our power plant with the Guangdong Liquefied Natural Gas Terminal, these provide greater flexibility for the Group to select the most economical source of fuel.

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

The Group's investment in gas fuel business through Towngas China achieved a breakthrough after the disposal. For the six months ended 30 June 2008, Towngas China recorded a turnover of HK\$2,119 million, an increase of 51.3% over the previous year. Operating profit before returns on investments grew by 44.4% to HK\$90 million. The increases were mainly due to increases in the number of operating subsidiaries during the past 12 months and the natural growth of individual subsidiaries. Towngas China recorded an EBITDA of HK\$310 million, an increase of 25.0% over the corresponding period last year. Profit attributable to shareholders jumped to HK\$101 million representing an increase of 100.1% over the same period last year.

The jump in profit attributable to shareholders was mainly due to the significant increase in contributions from associated companies of HK\$35 million to HK\$85 million, together with an increase of 25.2% to HK\$38 million from the six jointly controlled entities acquired from The Hong Kong and China Gas Company Limited (“HKCG”), where only four months of results were accounted for in the first half of 2007.

During the period, Towngas China successfully acquired (i) a wholly owned subsidiary in Huangshan city of Anhui Province in May 2008, in which it owns a 30 years’ exclusive operating rights in city piped-gas business; and (ii) 100% equity interest city piped-gas project in the Jinhai Economic Zone in Shenyang of Liaoning Province in July 2008. The projects are expected to create synergies with Towngas China’s other piped gas projects in the future.

On 28 April 2008, the ratings agency Moody’s Investor Service upgraded the Towngas China’s senior unsecured bond rating to Baa3 and also assigned a Baa3 issuer rating to Towngas China. The outlook for the ratings is stable. The upgrades reflect Towngas China’s stronger financial and operational outlook.

FINANCIAL POSITION

The Group’s total borrowings decreased from HK\$894.2 million as at 31 December 2007 to HK\$771.9 million as at 30 June 2008. The bank borrowings as at 30 June 2008 were bank loan used to finance the expansion of the power plant in Shenzhen. The Group’s total net interest-bearing debt to equity was 14.3% as at 30 June 2008.

Total assets pledged in securing these loans have a net book value of HK\$805.1 million as at 30 June 2008. All the bank borrowings of the Group are mainly at floating rates and denominated in both Renminbi and United States dollars. The Group’s operation is mainly carried out in the PRC and substantial receipts and payments in relation to the operations are denominated in Renminbi. No financial instruments were used for hedging purpose. The Board will continue to evaluate and monitor the potential impact of the appreciation of Renminbi to the Group’s business and manage the risks of using different financial instruments.

The Group’s cash and cash equivalents amounted to HK\$216.6 million as at 30 June 2008 and are mostly denominated in Renminbi, Hong Kong dollars and United States dollars.

Capital Commitments

As at 30 June 2008, the Group had capital commitments in respect of the acquisition of property, plant and equipment not provided in the financial statements amounting to HK\$8.5 million.

PROSPECTS

In view of the continued growth in China's economy, the Board continues to pursue investment opportunities with good strategic value in the energy and other sectors in order to enhance the shareholders' value of the Company.

Electricity Generation Business

In view of the current national power shortage situation, it is estimated that power consumption in Guangdong Province will continue to rise and the supply shortage gap will continue to widen.

In view of the fluctuated international crude oil prices, the natural gas has gradually become a major economical energy source in China, especially after the Second West-East Natural Gas Pipeline project. The application of natural gas is expected to boost up. We foresee the next five years would be the second development for China's natural gas. It will also be an evolution for the Group's natural gas business after the successful modifying two 180 MW power generator units with dual-fuel firing capabilities in last year.

The Company will kick off the conversion by converting the remaining 235MW installed capacity generating unit into a gas-fired plant in an appropriate stage. The Company believes that the improvement in productivity, efficiency, gross profit margin and maintenance cost saving following the natural gas conversion plan will put itself in a better position in the industry.

Gas Fuel Business through its Major Associate, Towngas China

With vast territories, huge population and unceasing urbanization, demand for natural gas is growing rapidly. Towngas China expects that China's natural gas market will provide exceptional potential for their business profitability and expansion.

In addition to the city piped gas business, Towngas China's compressed natural gas refilling business has been expanding rapidly as well. With the increasing number of cars on the mainland, and the government's growing support for environmental protection, we are highly optimistic with regard to the growth and profitability of this business.

Towngas China has established extensive business ties in numerous cities throughout the country. In Sichuan and provinces in the Northeast region, Towngas China continues to maintain and promote cooperation with the local governments, while also actively exploring the possibility of collaboration with private enterprises. Several projects with extensive market potential are expected to enter into advanced negotiation stages in the latter part of the year.

In view of the continued growth in China's economy and the unrelenting demand for energy and natural resources, we are confident and optimistic that Towngas China will continuously bring priceless contributions for the shareholders of Enerchina.

INTERIM DIVIDEND

In order to retain resources for the Group's business development, the Board does not declare an interim dividend for the six months ended 30 June 2008 (2007: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2008, the Group employed approximately 196 full time employees. The Group recognizes the importance of high caliber and competent staff and continues to provide remuneration packages to employees with reference to prevailing market practices and individual performance. In addition, share options may be granted to certain eligible directors and employees of the Group in accordance with the terms of the approved share option scheme adopted by the Group.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries for the six months ended 30 June 2008.

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that in respect of the six months ended 30 June 2008, all Directors have complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

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

The interim report of the Group for the six months ended 30 June 2008 had not been audited, but had been reviewed by the Company’s auditor, Deloitte Touche Tohmatsu and the Audit Committee.

APPRECIATION

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

By Order of the Board
Chen Wei
Chief Executive Officer

Hong Kong, 18 September 2008

OTHER INFORMATION

Directors' Interests or Short Positions in Shares and in Share Options

At 30 June 2008, the interests or short positions of the Directors and chief executive of the Company in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required: (a) divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in Shares and underlying Shares

Name of Directors	Capacity	Interest in Shares				Interest in underlying Shares pursuant to share options	Aggregate interest	Approximate percentage of issued share capital of the Company as at 30.6.2008
		Personal interest	Family interest	Corporate interest	Total interest in Shares			
Chen Wei	Beneficial owner	8,775,000	—	—	8,775,000	30,000,000	38,775,000	0.81%
Lu Yungang	Beneficial owner	—	—	—	—	5,288,000	5,288,000	0.11%
Davin A. Mackenzie	Beneficial owner	935	—	—	935	5,288,000	5,288,935	0.11%
Ou Yaping	Beneficial owner, interest in controlled corporations and joint interest	—	7,973,476	1,761,735,558	1,769,709,034 (Note)	6,288,000	1,775,997,034	37.05%
Sun Qiang Chang	Beneficial owner	—	—	—	—	15,000,000	15,000,000	0.31%
Tang Yui Man Francis	Beneficial owner	13,893,750	—	—	13,893,750	32,880,000	46,773,750	0.98%
Xiang Ya Bo	Beneficial owner	—	—	—	—	32,880,000	32,880,000	0.69%
Xin Luo Lin	Beneficial owner	—	—	—	—	5,288,000	5,288,000	0.11%

Note: The 1,761,735,558 Shares represent the aggregate of (i) 1,701,660,412 Shares held by Asia Pacific Promotion Limited ("Asia Pacific") directly; and (ii) 60,075,146 Shares are held by Sinolink Worldwide Holdings Limited ("Sinolink"). Mr. Ou Yaping through his wholly-owned company, Asia Pacific holds 47.50% of the existing issued share capital of Sinolink and is therefore deemed to be interested in all these 1,761,735,558 Shares under the SFO.

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

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

Name of Directors	Name of associated corporation	Capacity	Interest in shares			Total interest in shares	Interest in underlying shares pursuant to share options	Aggregate interest	Approximate percentage of the issued share capital of the associated corporation as at 30.6.2008
			Personal interest	Corporate interest	Family interest				
Ou Yaping	Towngas China	Beneficial Owner and interest in controlled corporation	3,618,000	530,487,245 (Note)	—	534,105,245	—	534,105,245	27.28%
Chen Wei	Towngas China	Beneficial owner	1,600,000	—	—	1,600,000	6,633,000	8,233,000	0.42%
Tang Yui Man Francis	Towngas China	Beneficial owner	—	—	—	—	3,015,000	3,015,000	0.15%

Note: The 530,487,245 shares in Towngas China Company Limited (“Towngas China”) represent the aggregate of (i) 344,046,568 shares of Towngas China held by Kenson Investment Limited (“Kenson”) and (ii) 186,440,677 shares of Towngas China held by Supreme All Investments Limited (“Supreme All”), which are wholly-owned subsidiaries of the Company. Mr. Ou Yaping through his wholly-owned company, Asia Pacific holds 36.76% interests in the Company and is therefore deemed to be interested in all these 530,487,245 shares under the SFO.

Details of the Directors' interests in share options granted by the associated corporation are set out under the heading “Directors' rights to acquire Shares”.

Directors' Rights to Acquire Shares

(a) Interest in options to subscribe for Shares

Pursuant to the Company's share option scheme, the Company has granted to certain Directors of the Company options to subscribe for the Shares, details of which as at 30 June 2008 were as follows:

Name of Directors	Date of grant	Exercise period	Exercise price HK\$	Number of Shares subject to options as at 1.1.2008	Granted during the period	Number of Shares subject to options as at 30.6.2008	Percentage of the issued share capital of the Company as at 30.6.2008
Chen Wei	13.11.2007	01.01.2010 – 12.11.2017	0.450	15,000,000	—	15,000,000	0.31%
	13.11.2007	01.01.2011 – 12.11.2017	0.450	15,000,000	—	15,000,000	0.31%
Lu Yungang	09.06.2004	09.06.2005 – 08.06.2014	0.440	2,288,000	—	2,288,000	0.05%
	13.11.2007	01.01.2010 – 12.11.2017	0.450	1,500,000	—	1,500,000	0.03%
	13.11.2007	01.01.2011 – 12.11.2017	0.450	1,500,000	—	1,500,000	0.03%
Davin A. Mackenzie	20.10.2004	20.10.2005 – 19.10.2015	0.500	2,288,000	—	2,288,000	0.05%
	13.11.2007	01.01.2010 – 12.11.2017	0.450	1,500,000	—	1,500,000	0.03%
	13.11.2007	01.01.2011 – 12.11.2017	0.450	1,500,000	—	1,500,000	0.03%
Ou Yaping	09.06.2004	09.06.2004 – 08.06.2014	0.440	2,288,000	—	2,288,000	0.05%
	13.11.2007	01.01.2010 – 12.11.2017	0.450	2,000,000	—	2,000,000	0.04%
	13.11.2007	01.01.2011 – 12.11.2017	0.450	2,000,000	—	2,000,000	0.04%
Sun Qiang Chang	08.12.2005	08.12.2005 – 07.12.2015	0.830	15,000,000	—	15,000,000	0.31%
Tang Yui Man Francis	09.06.2004	09.06.2004 – 08.06.2014	0.440	22,880,000	—	22,880,000	0.48%
	13.11.2007	01.01.2010 – 12.11.2017	0.450	5,000,000	—	5,000,000	0.10%
	13.11.2007	01.01.2011 – 12.11.2017	0.450	5,000,000	—	5,000,000	0.10%
Xiang Ya Bo	09.06.2004	09.06.2004 – 08.06.2014	0.440	22,880,000	—	22,880,000	0.48%
	13.11.2007	01.01.2010 – 12.11.2017	0.450	5,000,000	—	5,000,000	0.10%
	13.11.2007	01.01.2011 – 12.11.2017	0.450	5,000,000	—	5,000,000	0.10%
Xin Luo Lin	09.06.2004	09.06.2004 – 08.06.2014	0.440	2,288,000	—	2,288,000	0.05%
	13.11.2007	01.01.2010 – 12.11.2017	0.450	1,500,000	—	1,500,000	0.03%
	13.11.2007	01.01.2011 – 12.11.2017	0.450	1,500,000	—	1,500,000	0.03%

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the period, no options was granted to or exercised by the Directors of the Company and no options held by the Directors was cancelled or lapsed under the share option scheme.
3. These options represent personal interest held by the Directors as beneficial owners.

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

Name of Directors	Name of associated corporation	Date of grant	Exercise period	Exercise Price HK\$	Number of shares	Number of shares	Approximate percentage
					subject to outstanding options as at 1.1.2008	subject to outstanding options as at 30.6.2008	of the issued share capital of associated corporation as at 30.6.2008
Chen Wei	Towngas China	04.04.2001	01.01.2003 - 03.04.2011	0.473	1,809,000	1,809,000	0.09%
		04.04.2001	01.01.2004 - 03.04.2011	0.473	1,809,000	1,809,000	0.09%
		19.11.2004	31.12.2005 - 30.03.2011	3.483	904,500	904,500	0.05%
		19.11.2004	31.12.2006 - 30.03.2011	3.483	904,500	904,500	0.05%
		19.11.2004	31.12.2007 - 30.03.2011	3.483	1,206,000	1,206,000	0.06%
Tang Yui Man Francis	Towngas China	19.11.2004	31.12.2005 - 30.03.2011	3.483	904,500	904,500	0.05%
		19.11.2004	31.12.2006 - 30.03.2011	3.483	904,500	904,500	0.05%
		19.11.2004	31.12.2007 - 30.03.2011	3.483	1,206,000	1,206,000	0.06%

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. These options represent personal interest held by the Directors as beneficial owners.

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

Arrangements to Purchase Shares or Debentures

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

Share Option Scheme of the Company

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

Details of specific categories options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
2004A Option	09.06.2004	09.06.2004 – 08.06.2014	0.440
	09.06.2004	09.06.2005 – 08.06.2014	0.440
	09.06.2004	09.06.2006 – 08.06.2014	0.440
	09.06.2004	09.12.2006 – 08.06.2014	0.440
2004B Option	20.10.2004	20.10.2005 – 19.10.2015	0.500
2005 Option	08.12.2005	08.12.2005 – 07.12.2015	0.830
2007 Option	13.11.2007	01.01.2010 – 12.11.2017	0.450
	13.11.2007	01.01.2011 – 12.11.2017	0.450

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

	Option types	Outstanding at 1.1.2008	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2008
<i>Category 1: Directors</i>						
Chen Wei	2007 Option	30,000,000	—	—	—	30,000,000
Lu Yungang	2004A Option	2,288,000	—	—	—	2,288,000
	2007 Option	3,000,000	—	—	—	3,000,000
Davin A. Mackenzie	2004B Option	2,288,000	—	—	—	2,288,000
	2007 Option	3,000,000	—	—	—	3,000,000
Ou Yaping	2004A Option	2,288,000	—	—	—	2,288,000
	2007 Option	4,000,000	—	—	—	4,000,000
Sun Qiang Chang	2005 Option	15,000,000	—	—	—	15,000,000
Tang Yui Man Francis	2004A Option	22,880,000	—	—	—	22,880,000
	2007 Option	10,000,000	—	—	—	10,000,000
Xiang Ya Bo	2004A Option	22,880,000	—	—	—	22,880,000
	2007 Option	10,000,000	—	—	—	10,000,000
Xin Luo Lin	2004A Option	2,288,000	—	—	—	2,288,000
	2007 Option	3,000,000	—	—	—	3,000,000
Total for directors		132,912,000	—	—	—	132,912,000
<i>Category 2: Employees</i>						
	2004A Option	7,200,008	—	—	(250,000)	6,950,008
	2007 Option	41,000,000	—	—	(1,000,000)	40,000,000
Total for employees		48,200,008	—	—	(1,250,000)	46,950,008
All categories		181,112,008	—	—	(1,250,000)	179,862,008

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. During the period, no options were granted, exercised or cancelled under the share option scheme of the Company.
3. During the period, 1,250,000 options were lapsed under the share option scheme of the Company.

Substantial Shareholders

At 30 June 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of the Directors, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions in Shares

Name of shareholders	Capacity	Aggregate interest	Approximate percentage of the issued share capital as at 30.6.2008
Asia Pacific	Beneficial owner and interest of controlled corporations	1,761,735,558 (Note 1)	36.76%
Warburg Pincus & Co.	Interest of controlled corporation	404,548,779 (Note 2)	8.44%
Warburg Pincus Equity Partners, L.P.	Interest of controlled corporation	404,548,779 (Note 2)	8.44%
Warburg Pincus Ventures International, L.P.	Interest of controlled corporation	404,548,779 (Note 2)	8.44%
Atlantic Cay International Limited	Beneficial owner	404,548,779 (Note 2)	8.44%
Keywise Capital Management (HK) Limited	Investment Manager	307,880,710 (Note 3)	6.42%
Keywise Greater China Opportunities Master Fund	Beneficial owner	307,880,710 (Note 3)	6.42%
Pope Asset Management	Investment Manager	289,947,960	6.05%

Notes:

1. 1,761,735,558 Shares represent the aggregate of (i) 1,701,660,412 Shares held by Asia Pacific directly; and (ii) 60,075,146 Shares are held by Sinolink. Mr. Ou Yaping through his wholly-owned company, Asia Pacific holds 47.50% of the existing issued share capital of Sinolink and is therefore deemed to be interested in all these 1,761,735,558 Shares under the SFO.
2. Warburg Pincus & Co. ("WP") is the general partner of the limited partnerships Warburg Pincus Equity Partners, L.P. ("WPE") and Warburg Pincus Ventures International, L.P. ("WPV"), and is deemed to have an interest in all the Shares held by these companies. These Shares represent the aggregate of the Shares held by the funds managed by WP and all the Shares held by Atlantic Cay International Limited ("Atlantic Cay").

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

WPV is interested in 50% of issued share capital of Atlantic Cay and it is deemed to be interested in all the Shares held by Atlantic Cay.
3. Keywise Greater China Opportunities Master Fund is an investment fund registered in the Cayman Islands and is wholly owned by Keywise Capital Management (HK) Limited, a company incorporated in Hong Kong. Accordingly, Keywise Capital Management (HK) Limited is deemed to be interested in these 307,880,710 Shares in which Keywise Greater China Opportunities Master Fund is interested.

Save as disclosed above, as at 30 June 2008, the Company has not been notified of any other interests or short positions in the Shares and underlying Shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

Deloitte.

德勤

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 18 to 38, which comprises the condensed consolidated balance sheet of Enerchina Holdings Limited as of 30 June 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

18 September 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	NOTES	Six months ended	
		30.6.2008 HK\$'000 (Unaudited)	30.6.2007 HK\$'000 (Unaudited)
Continuing operation			
Turnover	3	603,776	617,177
Cost of sales		(572,035)	(559,081)
Gross profit		31,741	58,096
Other income	4	40,447	18,597
Administrative expenses		(26,192)	(24,876)
Other expenses		(1,172)	(1,996)
Net (losses) gains on investments held for trading		(23,283)	14,937
Share of results of associates		28,742	23,927
Finance costs	5	(38,008)	(31,225)
Profit before taxation	6	12,275	57,460
Taxation	7	—	(90)
Profit for the period from continuing operation		12,275	57,370
Discontinued operations			
Loss for the period from discontinued operations	8	—	(108,571)
Profit (loss) for the period		12,275	(51,201)
Attributable to:			
Equity holders of the Company		12,298	(42,481)
Minority interests		(23)	(8,720)
		12,275	(51,201)
		HK cents	HK cents
Earnings (loss) per share	10		
From continuing and discontinued operations			
Basic		0.26	(0.89)
Diluted		N/A	N/A
From continuing operation			
Basic		0.26	1.18
Diluted		N/A	1.18

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2008

		30.6.2008	31.12.2007
		HK\$'000	HK\$'000
	NOTES	(Unaudited)	<i>(Audited)</i>
Non-current assets			
Property, plant and equipment	11	1,463,682	1,417,111
Prepaid lease payments		44,432	42,309
Goodwill		316,580	316,580
Interest in associates		2,335,317	2,227,366
Available-for-sale investments		1,510	1,510
		4,161,521	4,004,876
Current assets			
Inventories		174,412	169,941
Prepaid lease payments		1,559	1,464
Trade and other receivables, deposits and prepayments	12	296,971	308,133
Investments held for trading		109,148	50,439
Pledged bank deposits		22,476	—
Bank balances and cash		216,561	466,441
		821,127	996,418
Current liabilities			
Trade, notes and other payables	13	310,182	354,186
Taxation payable		8,922	8,922
Borrowings – amount due within one year	14	540,826	586,760
		859,930	949,868
Net current (liabilities) assets		(38,803)	46,550
Total assets less current liabilities		4,122,718	4,051,426
Non-current liabilities			
Borrowings – amount due after one year	14	231,093	307,409
Net assets		3,891,625	3,744,017
Capital and reserves			
Share capital		47,931	47,931
Reserves		3,843,132	3,695,536
Equity attributable to equity holders of the Company		3,891,063	3,743,467
Minority interests		562	550
Total equity		3,891,625	3,744,017

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2008

Attributable to equity holders of the Company

	Share capital	Share premium	Translation reserve	Capital reserve	General reserve	Contribution surplus	Share option reserve	Retained earnings	Total	Equity component of share option reserve of a listed subsidiary	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	48,299	3,019,191	120,398	81,525	6,627	370,544	3,400	38,779	3,688,763	14,002	1,100,205	4,802,970
Exchange differences arising on translation to presentation currency	–	–	52,665	–	–	–	–	–	52,665	–	20,129	72,794
Share of reserve of associates	–	–	84,022	–	–	–	–	–	84,022	–	–	84,022
Total income recognised directly in equity	–	–	136,687	–	–	–	–	–	136,687	–	20,129	156,816
Realised on deemed disposal of partial interest in subsidiaries	–	–	(3,020)	–	–	–	–	–	(3,020)	–	–	(3,020)
Realised on disposal and deemed disposal of subsidiaries	–	–	(51,360)	–	–	–	–	–	(51,360)	–	–	(51,360)
Realised on deemed disposal of associates	–	–	(355)	–	–	–	–	–	(355)	–	–	(355)
Realised on partial disposal of associates	–	–	(443)	–	–	–	–	–	(443)	–	–	(443)
Loss for the year	–	–	–	–	–	–	–	(2,425)	(2,425)	–	(8,768)	(11,193)
Total recognised expense for the year	–	–	(55,178)	–	–	–	–	(2,425)	(57,603)	–	(8,768)	(66,371)
Issue of shares	42	2,124	–	–	–	–	(304)	–	1,862	–	–	1,862
Repurchase of shares	(410)	(26,440)	–	–	–	–	–	–	(26,850)	–	–	(26,850)
Transfer	–	–	–	–	(2,990)	–	–	2,990	–	–	–	–
Recognition of equity-settled share-based payments	–	–	–	–	–	–	608	–	608	–	–	608
Share options lapsed	–	–	–	–	–	–	(634)	634	–	–	–	–
Reduction of contribution surplus	–	–	–	–	–	(370,000)	–	370,000	–	–	–	–
Realised on disposal and deemed disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(14,002)	(1,175,476)	(1,189,478)
Change in minority interests on deemed disposal of interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	64,460	64,460
At 31 December 2007	47,931	2,994,875	201,907	81,525	3,637	544	3,070	409,978	3,743,467	–	550	3,744,017

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Cont'd)
FOR THE SIX MONTHS ENDED 30 JUNE 2008

Attributable to equity holders of the Company

	Share capital	Share premium	Translation reserve	Capital reserve	General reserve	Contribution surplus	Share option reserve	Retained earnings	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008	47,931	2,994,875	201,907	81,525	3,637	544	3,070	409,978	3,743,467	550	3,744,017
Exchange differences arising on translation to presentation currency	—	—	54,196	—	—	—	—	—	54,196	35	54,231
Share of reserve of associates	—	—	72,066	—	—	—	—	—	72,066	—	72,066
Total income recognised directly in equity	—	—	126,262	—	—	—	—	—	126,262	35	126,297
Realised on deemed disposal of associates	—	—	(74)	—	—	—	—	—	(74)	—	(74)
Share of reserve of associates upon redemption of convertible bonds of associates	—	—	—	—	—	—	—	6,787	6,787	—	6,787
Profit for the period	—	—	—	—	—	—	—	12,298	12,298	(23)	12,275
Total recognised (expense) income for the period	—	—	(74)	—	—	—	—	19,085	19,011	(23)	18,988
Recognition of equity-settled share-based payments	—	—	—	—	—	—	2,323	—	2,323	—	2,323
Share option lapsed	—	—	—	—	—	—	(125)	125	—	—	—
At 30 June 2008	47,931	2,994,875	328,095	81,525	3,637	544	5,268	429,188	3,891,063	562	3,891,625

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Cont'd)

FOR THE SIX MONTHS ENDED 30 JUNE 2008

Attributable to equity holders of the Company

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	NOTE	Six months ended	
		30.6.2008 HK\$'000 (Unaudited)	30.6.2007 HK\$'000 (Unaudited)
Net cash (used in) from operating activities		(66,274)	145,146
Net cash used in investing activities			
(Increase) decrease in pledged bank deposits		(22,476)	20,038
Purchase of property, plant and equipment		(6,820)	(55,445)
Other investing cash flows		10,444	5,851
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	17	—	(439,145)
Investments in associates		—	(214,723)
		(18,852)	(683,424)
Net cash used in financing activities			
Repayments of bank and other loans		(314,567)	(189,395)
New bank and other loans raised		138,735	155,031
Other financing cash flows		—	(25,574)
Proceeds from exercise of share options of a listed subsidiary		—	5,958
		(175,832)	(53,980)
Net decrease in cash and cash equivalents		(260,958)	(592,258)
Cash and cash equivalents at beginning of the period		466,441	957,395
Effect of foreign exchange rate changes		11,078	8,336
Cash and cash equivalents at end of the period, representing bank balances and cash		216,561	373,473

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

1. BASIS OF PREPARATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The principal activities of the Group are supply of electricity. The Group was also engaged in sale and distribution of liquefied petroleum gas and natural gas (“Gas Fuel”) and construction of gas pipelines, which were discontinued on 28 February 2007 (see note 8).

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

At 30 June 2008, the Group had net current liabilities of approximately HK\$39 million and reported a net decrease in cash and cash equivalents of approximately HK\$261 million for the six months then ended. The Group’s current liabilities as at 30 June 2008 included its interest-bearing bank loans of HK\$541 million that are repayable within twelve months from the balance sheet date. The Group has started discussion with the relevant banks for refinancing of such loans and the relevant banks have expressed their intention to provide refinancing of the outstanding loans. The directors of the Company are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future and be able to operate as a going concern. Accordingly, the directors are satisfied that it is appropriate to prepare the Group’s condensed consolidated financial statements on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

In the current interim period, the Group has applied, for the first time, new interpretations ("new Interpretations") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2008.

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

HKAS 1 (Revised)	Presentation of financial statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKAS 27 (Revised)	Consolidated and separate financial statements ²
HKAS 32 & HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ¹
HKFRS 2 (Amendment)	Vesting conditions and cancellations ¹
HKFRS 3 (Revised)	Business combinations ²
HKFRS 8	Operating segments ¹
HK(IFRIC) - INT 13	Customer loyalty programmes ³
HK(IFRIC) - INT 15	Agreements for the construction of real estate ¹
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation ⁴

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

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

³ Effective for annual periods beginning on or after 1 July 2008.

⁴ Effective for annual periods beginning on or after 1 October 2008.

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

3. SEGMENT INFORMATION

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

Segment information about these businesses is presented below:

Business segments

Six months ended 30 June 2008

	Electricity supplies HK\$'000	Total HK\$'000
TURNOVER	<u>603,776</u>	<u>603,776</u>
RESULT		
Segment result	<u>15,464</u>	15,464
Other income		40,017
Corporate expenses		(11,087)
Net losses on investments held for trading		(23,283)
Finance costs		(38,008)
Gain on deemed disposal arising from dilution of interest in associates		430
Share of results of associates		<u>28,742</u>
Profit before taxation		12,275
Taxation		<u>—</u>
Profit for the period		<u>12,275</u>

3. SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

Six months ended 30 June 2007

	Continuing operation		Discontinued operations	
	Electricity supplies HK\$'000	Total HK\$'000	Gas fuel business HK\$'000	Consolidated HK\$'000
TURNOVER	617,177	617,177	421,459	1,038,636
RESULT				
Segment result	48,004	48,004	(5,015)	42,989
Other income		33,534	1,804	35,338
Corporate expenses		(14,935)	(31)	(14,966)
Finance costs		(31,225)	(24,609)	(55,834)
Loss on deemed disposal arising from dilution of interest in associates		(1,845)	—	(1,845)
Loss on deemed disposal arising from dilution of interest in subsidiaries		—	(6,212)	(6,212)
Share of results of associates		23,927	3,155	27,082
Profit (loss) before taxation		57,460	(30,908)	26,552
Taxation		(90)	(462)	(552)
Profit (loss) for the period		57,370	(31,370)	26,000
Loss on disposal and deemed disposal of subsidiaries		—	(77,201)	(77,201)
		57,370	(108,571)	(51,201)

4. OTHER INCOME

Other income mainly comprised of:

	Continuing operation		Discontinued operations		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30.6.2008	30.6.2007	30.6.2008	30.6.2007	30.6.2008	30.6.2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income on:						
– bank deposits	3,333	6,755	—	1,042	3,333	7,797
– others	5	—	—	—	5	—
	<u>3,338</u>	<u>6,755</u>	<u>—</u>	<u>1,042</u>	<u>3,338</u>	<u>7,797</u>
Total interest income						
Dividend income						
– listed	196	—	—	—	196	—
– unlisted	6,909	—	—	149	6,909	149
	<u>7,105</u>	<u>—</u>	<u>—</u>	<u>149</u>	<u>7,105</u>	<u>149</u>
Gain on deemed disposal arising from dilution of interest in associates	430	—	—	—	430	—
Insurance recovery of damages and losses incurred in prior years as a result of breakdown of plant and machinery	28,873	4,181	—	—	28,873	4,181
	<u><u>28,873</u></u>	<u><u>4,181</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>28,873</u></u>	<u><u>4,181</u></u>

5. FINANCE COSTS

	Continuing operation		Discontinued operations		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30.6.2008	30.6.2007	30.6.2008	30.6.2007	30.6.2008	30.6.2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank and other borrowings wholly repayable within five years	38,008	31,225	—	1,459	38,008	32,684
Interest on convertible bonds	—	—	—	2,453	—	2,453
Interest on guaranteed senior notes	—	—	—	20,515	—	20,515
	38,008	31,225	—	24,427	38,008	55,652
Bank charges	—	—	—	182	—	182
	38,008	31,225	—	24,609	38,008	55,834

6. PROFIT BEFORE TAXATION

	Continuing operation		Discontinued operations		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30.6.2008	30.6.2007	30.6.2008	30.6.2007	30.6.2008	30.6.2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:						
Loss on deemed disposal arising from dilution of interest in associates	—	1,845	—	—	—	1,845
Depreciation of property, plant and equipment	50,827	50,473	—	17,299	50,827	67,772
Release of prepaid lease payments	606	836	—	—	606	836

7. TAXATION

	Continuing operation		Discontinued operations		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30.6.2008	30.6.2007	30.6.2008	30.6.2007	30.6.2008	30.6.2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax:						
PRC Enterprise Income Tax	—	90	—	462	—	552
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

No provision of Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the relevant entities had no assessable profit in both periods.

Pursuant to relevant laws and regulations in the People's Republic of China ("PRC"), certain of the Group's subsidiaries operating in the PRC are entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from first profit making year of operations and thereafter, the subsidiaries are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The reduced tax rate for the relief period is at 9% (six months ended 30 June 2007: ranging from 7.5% to 16.5%).

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations introduced the unification of the income tax at 25% from 1 January 2008 with certain transitional arrangement. The tax rate applicable for all PRC subsidiaries is 18% (six months ended 30 June 2007: ranging from 15% to 33%) for the current interim period. The enactment of the New Law is not expected to have any significant financial effect on the amounts accrued in the condensed consolidated balance sheet in respect of taxation payable and deferred taxation.

At the balance sheet date, no deferred tax liabilities have been recognised in respect of the temporary differences associated with undistributed earnings of subsidiaries. No deferred tax liabilities has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

8. DISCONTINUED OPERATIONS

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

The loss for that period from the discontinued operations was analysed as follows:

	1.1.2007 to 28.2.2007 HK\$'000
Loss of gas fuel business operation for that period	(31,370)
Loss on disposal and deemed disposal of subsidiaries	(77,201)
	<u>(108,571)</u>

8. DISCONTINUED OPERATIONS (Cont'd)

The results of the gas fuel business were as follows:

	<i>Notes</i>	1.1.2007 to 28.2.2007 <i>HK\$'000</i>
Turnover	3	421,459
Cost of sales		(370,458)
		<hr/>
Gross profit		51,001
Other income	4	1,804
Distribution and selling expenses		(16,682)
Administrative expenses		(39,334)
Other expenses		(31)
Finance costs	5	(24,609)
Share of results of associates		3,155
Loss on deemed disposal arising from dilution of interest in subsidiaries		(6,212)
		<hr/>
Loss before taxation	6	(30,908)
Taxation	7	(462)
		<hr/>
Loss for the period from discontinued operations		(31,370)
Loss on disposal and deemed disposal of subsidiaries		(77,201)
		<hr/>
		(108,571)
		<hr/> <hr/>
Attributable to:		
Equity holders of the Company		(99,200)
Minority interests		(9,371)
		<hr/>
		(108,571)
		<hr/> <hr/>

During the period from 1 January 2007 to 28 February 2007, Towngas China had outflow of HK\$23 million to the Group's net operating cash flows, outflow of HK\$17 million in respect of investing activities and contributed HK\$5 million in respect of financing activities.

The carrying amounts of the assets and liabilities of Towngas China at the date of disposal are disclosed in note 17.

9. DIVIDENDS

The directors have resolved not to declare an interim dividend in respect of six months ended 30 June 2008 and 2007.

10. EARNINGS (LOSS) PER SHARE

From continuing and discontinued operations

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

	Six months ended	
	30.6.2008	30.6.2007
	HK\$'000	HK\$'000
Earnings (loss) for the purpose of basic earnings (loss) for the period attributable to equity holders of the Company	<u>12,298</u>	<u>(42,481)</u>
	Six months ended	
	30.6.2008	30.6.2007
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	<u>4,793,103,776</u>	4,792,934,807
Effect of dilutive share options		<u>16,103,800</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<u>4,809,038,607</u>

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for the six months ended 30 June 2008.

No diluted loss per share had been presented for the prior interim period on the assumption that the exercise of the share options by the Company would decrease the loss per share.

10. EARNINGS (LOSS) PER SHARE (Cont'd)

From continuing operation

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

	Six months ended	
	30.6.2008	30.6.2007
	HK\$'000	HK\$'000
Earnings (loss) for the period attributable to equity holders of the Company	12,298	(42,481)
Less: Loss for the period from discontinued operations	<u>—</u>	<u>99,200</u>
Earnings for the purposes of basic and diluted earnings per share from continuing operation	<u>12,298</u>	<u>56,719</u>

The denominators used are the same as those detailed above.

No diluted earning per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for the six months ended 30 June 2008.

From discontinued operations

Basic loss per share from discontinued operations for the period ended 30 June 2007 was HK2.07 cents per share based on the loss for that period from the discontinued operations of HK\$99 million and the denominators detailed above. No diluted loss per share has been presented for that period on the assumption that the exercise of the share options granted by the Company would decrease the loss per share.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$6,820,000 (1.1.2007 to 30.6.2007: HK\$55,445,000) on acquisition of property, plant and equipment.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in trade and other receivables, deposits and prepayments are trade receivables totalling HK\$170,951,000 (31.12.2007: HK\$210,111,000) all of which are aged less than 90 days.

Included in other receivables, deposits and prepayments as at 30 June 2008 is a receivable of HK\$77,976,000 (2007: HK\$77,976,000) representing an advance to an investee of the Group. The amount is unsecured, interest-free and expected to be settled within one year.

13. TRADE, NOTES AND OTHER PAYABLES

Included in trade, notes and other payables are trade and notes payables of HK\$253,980,000 (31.12.2007: HK\$259,853,000), the aged analysis of which is as follows:

	30.6.2008	31.12.2007
	HK\$'000	HK\$'000
Aged:		
0 – 90 days	250,053	256,055
91 – 180 days	432	3,750
181 – 360 days	3,447	—
Over 360 days	48	48
	253,980	259,853

14. *BORROWINGS*

	30.6.2008 <i>HK\$'000</i>	31.12.2007 <i>HK\$'000</i>
Bank loans		
– secured	459,064	530,921
– unsecured	312,855	363,248
	<u>771,919</u>	<u>894,169</u>
The maturity of the above borrowings is as follows:		
On demand or within one year	540,826	586,760
More than one year but not more than two years	182,270	188,339
More than two years but not more than three years	48,823	109,202
More than three years but not more than four years	—	9,868
	<u>771,919</u>	<u>894,169</u>
Less: Amount due within one year shown under current liabilities	<u>(540,826)</u>	<u>(586,760)</u>
Amount due after one year	<u>231,093</u>	<u>307,409</u>

At 30 June 2008, property, plant and equipment with an aggregate carrying amount of HK\$805,121,000 (31.12.2007: HK\$761,257,000) were pledged to banks to secure general banking facilities granted to the Group.

15. RELATED PARTY TRANSACTION

During the period, the Group paid office expenses of HK\$1,412,000 (1.1.2007 to 30.6.2007: HK\$636,000) to Sinolink Worldwide Holdings Limited, a company with common shareholder of the Company. The office expense is determined with reference to actual costs incurred.

16. CAPITAL COMMITMENTS

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<u>8,493</u>	<u>5,562</u>

17. DISPOSAL OF SUBSIDIARIES

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

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

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