Enerchina Holdings Limited

威華達控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 622

Annual 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 Xiang Bing Xin Luo Lin
AUTHORISED REPRESENTATIVES	Tang Yui Man Francis Xiang Ya Bo
AUDIT COMMITTEE	Lu Yungang Xiang Bing Xin Luo Lin *(Chairman)*
REMUNERATION COMMITTEE	Lu Yungang Ou Yaping Xiang Bing 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
Fascimile	(852) 2851 0970
Stock Code	622
Website	http://www.enerchina.com.hk
AUDITOR	Deloitte Touche Tohmatsu *Certified Public Accountants* 35th Floor, One Pacific Place, 88 Queensway Hong Kong
PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE	Butterfield Fulcrum Group (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
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

CONTENTS

On behalf of the board ("Board") of Directors, I hereby present to our shareholders the annual results of Enerchina Holdings Limited ("Enerchina" or the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2008, the Group recorded a turnover of HK$1,016.5 million, representing a decrease of 22.6% as compared to the same period last year. Gross profit from continuing operation decreased to HK$18.0 million for the year ended 31 December 2008, a decrease of 77.9% as compared to the corresponding period last year. The Group's audited consolidated loss attributable to shareholders for the year ended 31 December 2008 amounted to HK$394.5 million, representing increase of approximately HK$392.1 million as compared with the audited consolidated loss attributable to shareholders of HK$2.4 million for the year ended 31 December 2007. Such increase in the loss attributable to shareholders of the Company was mainly due to the directors reassessed the recoverable amounts of goodwill at 31 December 2008 and determined the goodwill associated with the acquisition of Sinolink Industrial Limited and Shenzhen Fuhuade Electric Power Co., Ltd. was impaired by HK$316.6 million, in light of its abilities to achieve the carrying amount of that units during the year under review.

OVERVIEW

2008 was a very challenging year as the sub-prime mortgage crisis in the United States grew into a financial tsunami that stormed across the world. With the credit crunch and the collapse of financial markets, the global economy was hanging by a thread and every single economy was adversely affected. Hong Kong and Mainland China were not immune. Both economies inevitably slowed down amidst which the power supply sector was under relentless pressure. This presented unprecedented challenges and difficulties to the Group.

ELECTRICITY GENERATION BUSINESS

In the first half of 2008, the total power consumption in Guangdong Province continued to rise, in particular, after a heavy snowstorm in 50 years. The supply shortage gap kept on widening. However, in the second half of 2008, the economic atmosphere had been seriously affected by the spreading US sub-prime crisis, global oil price hike, and weakening US dollars ("USD"). The national electricity consumption per unit of GDP decreased by 9.57% as compared to same period last year, representing the rapid decline in the demand for electricity. According to statistics provided by the State Electricity Regulatory Commission, the total power generation in Guangdong Province was approximately 210.3 billion kwh for the year ended 31 December 2008, representing a decrease of 2.5% over the corresponding period last year.

Cost control remained the main challenge faced by the Group's management. The heavy oil price bounded to a fresh record high at the second and third quarter of 2008, notwithstanding the heavy oil price slid from the peak in the last quarter of the year. The Group's power generation business was still under enormous pressure. The gross profit margin of the electricity generation business for the year narrowed despite the partial offset of the fuel subsidies from the Shenzhen Government.

GAS FUEL BUSINESS THROUGH ITS MAJOR ASSOCIATE, TOWNGAS CHINA COMPANY LIMITED

The Group's investment in gas fuel business through Towngas China Company Limited ("Towngas China") achieved a breakthrough after the disposal. In 2008, Towngas China achieved another remarkable year with highly positive results. Investment was scaled up in new projects and screening was carried out more rigorously than ever before, resulting in satisfactory business development in terms of both quality and quantity.

OUTLOOK

The current financial crisis is not expected to be over soon. However, its impact on China is not as serious as that on other countries. Despite of the negative impact on China's economy, the Government of PRC reiterated the objectives of promoting stable and fast growth, expanding domestic demand, and targeting structural improvement and announced a series of stimulus packages to stimulate the economy. Looking forward, we believe that China's long-term economic fundamentals remain sound in spite of the current market. The Board will continue to evaluate and closely monitor the potential impact of the existing crisis and adopt proper strategies when necessary.

APPRECIATION

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

OU Yaping
Chairman

Hong Kong, 8 April 2009

BUSINESS REVIEW

Overview of Electricity Generation Business

During the year, the Group's on-grid electricity generation amounted to 1,458 million kWh, representing a decline of 30.1% as compared to 2,086 million kWh over 2007. This was mainly caused by (i) the minimized of the overall electricity generation in the second and third quarter in 2008 in view of the volatile heavy oil price; and (ii) the decreased demand for electricity from the power grid after the outbreak of global financial crisis in the last quarter of 2008. As a results, after the exchange translation difference of Renminbi ("RMB") and Hong Kong dollars ("HKD"), the turnover of on-grid electricity dropped by 22.6% to HK$1,016.5 million.

Direct operating expenses attributable to electricity supplies decreased by 19.0% to HK$998.5 million due to the escalating fuel cost especially in the second and third quarter of 2008 and the persistent appreciation of RMB against USD. During the year, the Group incurred a total fuel cost of HK$859.0 million. The Group was granted an amount of HK$518.6 million, in compensation for the high fuel cost, by the Shenzhen Government for the period from December 2007 to September 2008. The subsidy is to ensure the power plant to maintain its profitability in times of rising heavy oil cost.

The staggeringly high world crude oil price had significantly pushed up the price of heavy oil, thus, putting the Group's power generation business under enormous pressure. Despite management's efforts in improving productivity, strengthening fuel procurement and inventory control, the gross profit margin of the power generation business for the year decreased to 1.8% as compared to 6.2% in 2007.

Other income, which principally comprised interest income, insurance compensation and dividend income, was decreased from HK$88.0 million in 2007 to HK$50.0 million in 2008. This was mainly attributable to the (i) HK$29.2 million receipt from insurance compensation due to the machinery breakdown; and (ii) HK$14.2 million dividend income from unlisted investments.

The HK$20.9 million decrease in administrative expense was mainly due to the write-off of HK$24.5 million retention monies for the disposal of 41% equity interest in Xin Hua Control Engineering Company Limited in 2007.

The loss from continuing operation for the year ended 31 December 2008 amounted to HK$394.6 million as compared to the profit from continuing operation of HK$97.4 million for the 2007's. This was mainly results of (i) the drop in profits from electricity generation business; (ii) the impairment of goodwill, which associated with the acquisition of electricity generation business in prior years, amounted to HK$316.6 million; and (iii) net losses on investments held for trading of HK$92.4 million.

After the completion of modifying the two 180 MW power generator units with dual-fuel firing capabilities and constructing of Liquefied Natural Gas pipeline, 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 Company Limited ("Towngas China")

For the year ended 31 December 2008, Towngas China booked a record turnover of HK$4,409 million, a significant increase of 38.0% when compared to 2007. The gas fuel business was divided into the sale of piped gas, gas pipeline construction and sale of liquefied petroleum gas. Turnover contributed from each of these activities amount to HK$1,180 million, HK$448 million, and HK$2,694 million, accounting for 26.8%, 10.2%, and 61.1%, respectively, of Towngas China's turnover. The increase is mainly attributable to the raise in the total volume sold in piped gas business, which contributed from the new subsidiaries.

Operating profit before returns on investments increased to HK$228 million in 2008, representing an increase of approximately 34.3%. Earnings before interests, taxation, depreciation and amortization ("EBITDA") was HK$677 million, an increase of approximately 27.3% from 2007. Profit after tax attributable to shareholders of Towngas China amounted to HK$202 million, an increase of 40.0% when compared to last year. The increase in profit attribution to shareholders was mainly due to the significant increase in contributions from associated companies of HK$106 million in 2007 to HK$146 million in 2008, representing an increase of 37.7%, which resulting from the expand in the volume piped gas sold and number of customers.

On 28 April 2008, the ratings agency Moody's Investor Service upgraded Towngas China's senior unsecured bond rating to Baa3 and also assigned a Baa3 issuer rating to Towngas China. The outlook is stable. The upgrade reflects 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$647.3 million as at 31 December 2008. The bank borrowings as at 31 December 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 ratio was 14.0% as at 31 December 2008.

Total assets pledged in securing these loans have a net book value of HK$757.8 million as at 31 December 2008. All the bank borrowings of the Group are mainly at floating rates and denominated in both RMB and USD. The Group's operation is mainly carried out in the PRC and substantial receipts and payments in relation to the operations are denominated in RMB. No financial instruments were used for hedging purpose. The Board will continue to evaluate and monitor the potential impact of the appreciation of RMB to the Group's business and manage the risks of using different financial instruments.

The Group's cash and cash equivalents and pledged bank deposits amounted to HK$160.2 million and HK$23.8 million, respectively, as at 31 December 2008 and are mostly denominated in RMB, HKD and USD.

CAPITAL COMMITMENTS

As at 31 December 2008, the Group has capital commitments in respect of the acquisition of property, plant and equipment not provided in the financial statements amounting to HK$5.6 million.

PROSPECTS

Owing to the global recession, the declining demand for electricity in Guangdong Province has also resulted in a slowdown of growth at our power plant. We expect the challenging, volatile and uncertain electricity generation business to continue in 2009. Notwithstanding the unfavorable global economic conditions, 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 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. In addition, along with the PRC Government privileged policies of utilizing natural gas, 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 MV 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

Looking forward, Towngas China will continue to expand the city gas portfolio through mergers and acquisitions. On the other hand, Towngas China will closely monitor the ever changing environment in China economy and the gas industry, so as to continuously fine tune the development strategies and operation models accordingly. With these measures, despite the challenges imposed by the recent turn in the pace of economic development in the mainland, Towngas China anticipates a stable progression in 2009.

Rapid market expansion an growth, realized through mergers and acquisitions, has been an essential instrument in sustaining Towngas China growth potential. In 2009, Towngas China will continue to adhere to this strategy. Towngas China will continue to enjoy the strong backing of The Hong Kong and China Gas Company Limited, and will adopt even more prudent investment strategies on a stricter selective basis, to improve the quality of new undertakings while strictly controlling the risks involved.

Towngas China has a substantial customer base in mainland China and there are still many prospective customers in the regions. While China economy continues to grow at a rapid pace, inland provinces are just entering the urbanization and industrialization stages. Furthermore, current demand for gas for industrial, commercial and vehicular usage still outstrips supply. Building on the foundations of our existing projects, Towngas China will further penetrate these markets while working to enhance service standards, improve customer structure, increase the proportion of higher margin businesses, and thus enhance the profitability.

FINAL DIVIDEND

In order to retain resources for the Group's business development, the Board does not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the Group employed approximately 198 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.

APPRECIATION

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

CHEN Wei
Chief Executive Officer

Hong Kong, 8 April 2009

EXECUTIVE DIRECTORS

Mr. Ou Yaping, aged 47, is the chairman and an executive director, a member of remuneration committee and indirect substantial shareholder of the Company. He is also the chairman and executive director of Sinolink Worldwide Holdings Limited ("Sinolink") and an executive director of Towngas China Company Limited ("Towngas China"), both companies are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Ou is a brother of Mr. Xiang Ya Bo. He holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology in the PRC and is also the vice chairman of the board and a part-time professor of that institute. Mr. Ou was previously employed by a number of trading and investment companies in the PRC and Hong Kong. Mr. Ou has over 23 years of experience in investing, trading and corporate management. Mr. Ou is responsible for the overall business development, management and strategic planning of the Company. He has been the executive director since May 2002 and redesignated as the chairman of the Company since June 2005. He is also the director of Asia Pacific Promotion Limited ("Asia Pacific"), a substantial shareholder of the Company, whose interest in shares of the Company is disclosed in the section of "Substantial Shareholder". Save as disclosed above, Mr. Ou has not held any directorship in other listed public companies in the past three years.

Pursuant to a service agreement entered into between Mr. Ou and the Company on 1 April 2007, Mr. Ou was appointed for a specific term of three years from 1 April 2007 and is subject to retirement and re-election provisions of Bye-laws. Mr. Ou is entitled to an annual remuneration of HK$390,000 and year-end discretionary bonus which are determined by the Board based on the review and recommendation from the remuneration committee of the Company with reference to his duties and responsibilities within the Company, the Company's performance and the prevailing market situation. Save as disclosed above, he does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company.

Mr. Chen Wei, aged 47, is the chief executive officer and executive director of the Company. He is currently the executive director of Sinolink and Towngas China, both companies are listed on the Stock Exchange. Mr. Chen holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology in the PRC. He was previously employed by a number of large organisations and has over 23 years of experience in engineering, business administration, market development and management. Mr. Chen is responsible for the overall business development, management and strategic planning of the Group. He has been the chief executive officer and executive director of the Company since May 2007. Save as disclosed above, Mr. Chen has not held any directorship in other listed public companies in the past three years.

Pursuant to a service agreement entered into between Mr. Chen and the Company on 31 March 2008, Mr. Chen was appointed for a specific term of three years from 1 April 2008 and is subject to retirement and re-election provisions of Bye-laws. Mr. Chen is entitled to an annual remuneration of HK$2,200,100 and year-end discretionary bonus which are determined by the Board based on the review and recommendation from the remuneration committee of the Company with reference to his duties and responsibilities within the Company, the Company's performance and the prevailing market situation. He does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company.

Mr. Xiang Ya Bo, aged 52, is the executive director and member of remuneration committee of the Company. He is a brother of Mr. Ou Yaping. Mr. Xiang is also the founder of Jiadeyu Information Consultant (Shenzhen) Co. Ltd. which engaged in the business of computer technologies and e-commerce. He graduated with an engineering degree. Mr. Xiang has over 20 years of experience in the field of corporate management, investment management and technical administration on computer technologies and e-commerce. Mr. Xiang is responsible for the overall business development, management and strategic planning of the power generation business. He has been the executive director of the Company since May 2002. Save as disclosed above, Mr. Xiang has not held any directorship in other listed public companies in the past three years.

Pursuant to a service agreement entered into between Mr. Xiang and the Company on 2 May 2007, Mr. Xiang was appointed for a specific term of three years from 2 May 2007 and is subject to retirement and re-election provisions of Bye-laws. Mr. Xiang is entitled to an annual remuneration of HK$2,002,000 and year-end discretionary bonus which are determined by the Board based on the review and recommendation from the remuneration committee of the Company with reference to his duties and responsibilities within the Company, the Company's performance and the prevailing market situation. Save as disclosed above, he does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company.

Mr. Tang Yui Man Francis, aged 46, is an executive director of the Company. Mr. Tang is also the chief executive officer and executive director of Sinolink and the alternate director to Mr Ou Yaping of Towngas China, both companies are listed on the Stock Exchange. Mr. Tang holds a Bachelor's degree in Computer Studies from the University of Victoria in Canada and a Master of Business Administration degree from The City University of New York in the United States. Mr. Tang has numerous years of experience in management, accounting and finance. He is responsible for corporate and financial planning, strategic development and management of the Company. Mr. Tang has been the executive director of the Company since May 2002. Save as disclosed above, Mr. Tang has not held any directorship in other listed public companies in the past three years.

Pursuant to the service agreement and supplemental agreement entered into between Mr. Tang and the Company on 1 April 2007 and 2 January 2009 respectively, Mr. Tang was appointed for a specific term of three years from 1 April 2007 and is subject to retirement and re-election provisions of Bye-laws. Mr. Tang is entitled to an annual remuneration of HK$1,800,045 and year-end discretionary bonus which are determined by the Board based on the review and recommendation from the remuneration committee of the Company with reference to his duties and responsibilities within the Company, the Company's performance and the prevailing market situation. He does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company.

NON-EXECUTIVE DIRECTOR

Mr. Sun Qiang Chang, aged 52, is the non-executive director and non-executive vice chairman of the Company. Mr. Sun holds a Bachelor of Arts degree from the Beijing Foreign Studies University, a joint degree of MA/MBA from the Joseph Lauder Institute of International Management and the Wharton School of the University of Pennsylvania. His experience includes working as a translator at the United Nations in New York, as an investment banking associate at Lepercq, de Neuflize & Co., a boutique leverage buyout firm, and as an executive director in the Investment Banking Division and the Principal Investment Area of Goldman Sachs (Asia) L.L.C. in Hong Kong.

Mr. Sun is the managing partner of Warburg Pincus' Hong Kong office, responsible for the firm's investment activities in North Asia. He is a director of GOME Electrical Appliances Holding Limited and China Huiyuan Juice Group Limited, both are listed public companies in Hong Kong, and a director of Harbin Pharmaceutical Group Holding Co., Ltd He resigned as a non-executive director of Kasen International Holdings Limited, a listed public Company in Hong Kong in May 2006. He was an executive director from April 2000 and redesignated as a non-executive director and non-executive vice chairman of the Company since June 2005. Save as disclosed above, Mr. Sun has not held any directorship in other listed public companies in the past three years.

Mr. Sun is appointed for a term of one year and is subject to retirement and re-election provisions in the Bye-laws. There is no agreement as to the remuneration payable to Mr. Sun. His remuneration is to be determined by the Board based on the review and recommendation from the Remuneration Committee of the Company with reference to his duties and responsibilities within the Company, the Company's performance and the prevailing market situation. Further announcement will be made when the remuneration of Mr. Sun is determined. For the year ended 31 December 2008, Mr. Sun did not receive any remuneration and does not have any relationship with any Directors, senior management, substantial or controlling shareholders of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lu Yungang, aged 46, is an independent non-executive director and member of audit committee and remuneration committee of the Company. He holds a Bachelor of Science degree from the Beijing University, a Master of Science degree from the Brigham Young University, and a Ph. D. in finance degree from the University of California (Los Angeles). Mr. Lu is the founder and managing director of APAC Capital Group, an investment management company focusing on Greater China markets. Prior to founding APAC Capital Group, he was a research analyst at a number of leading investment banks. Mr. Lu has over 14 years of experience in investment research and management. He is also the independent non-executive director of AsiaInfo Holdings, Inc., Spreadtrum Communications, Inc. and China Techfaith Wireless Communication Technology Ltd., which are listed public companies on the Nasdaq. He is also an independent non-executive director of Kasen International Holdings Limited and retired as a director of Nority International Group Limited in May 2007, all are listed public companies in Hong Kong. He has been the independent non-executive director of the Company since May 2004. Save as disclosed above, Mr. Lu has not held any directorship in other listed public companies in the past three years.

Mr. Lu is appointed for a term of one year and is subject to retirement and re-election provisions in the articles of association of the Company. He is entitled to an annual remuneration for an amount of HK$250,000 payable in two equal installments. His remuneration is determined by the Board and the remuneration committee of the Company with reference to his duties and responsibilities with the Company, the Company's performance and the prevailing market situation and to be authorized by the shareholders of the Company at the annual general meeting. Mr. Lu is not entitled to any bonus payments. He does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company.

Dr. Xiang Bing, aged 45, was appointed as an independent non-executive director of the Company in December 2008. He is also the member of audit committee and remuneration committee of the Company. Dr. Xiang obtained a Doctoral degree in accounting from the University of Alberta in Canada. He has over 10 years of teaching experience in the academic field. Dr. Xiang is currently the founding dean and professor of the Cheung Kong Graduate School of Business (長江商學院). He is the independent non-executive director and members of audit committee and remuneration committee of China Dongxiang (Group) Co., Ltd, Dan Form Holdings Company Limited, Sinolink Worldwide Holdings Limited and HC International, Inc.; the independent non-executive director and chairman of remuneration committee of Little Sheep Group Limited, all of which are companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Dr. Xiang is also the independent non-executive director and members of audit committee, remuneration committee and nomination committee of LDK Solar Co. Ltd. and an independent non-executive director and a member of audit committee of E-House (China) Holdings Limited, both are listed on New York Stock Exchange and the independent non-executive director and members of audit committee and remuneration committee of Perfect World Co., Ltd., a company listed on Nasdaq. He was a director of Jutal Offshore Oil Services Limited, a company listed on the Stock Exchange, the director of Shenzhen Terca Technology Co., Ltd. (深圳市特爾佳科技股份有限公司), TCL Corporation (TCL 集團股份有限公司), Shaanxi Qinchuan Machine Development Co., Ltd. (陝西秦川機械發展股份有限公司) and Guangdong Midea Electric Appliances Co. Ltd. (廣東美的電器股份有限公司), all are listed on Shenzhen Stock Exchange, a director of Wuhan Jianmin Pharmaceutical Groups Co., Ltd. (武漢健民藥業集團股份有限公司), a company listed on the Shanghai Stock Exchange. Save as disclosed above, Dr. Xiang has not held any directorship in other listed public companies in the past three years.

Dr. Xiang is appointed for a term of one year and is subject to retirement and re-election provisions in the articles of association of the Company. He is entitled to an annual remuneration for an amount of HK$250,000 payable in two equal installments. His remuneration is determined by the Board and the remuneration committee of the Company with reference to his duties and responsibilities with the Company, the Company's performance and the prevailing market situation and to be authorized by the shareholders of the Company at the annual general meeting. Dr. Xiang is not entitled to any bonus payments. He does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company.

Mr. Xin Luo Lin, aged 60, is an independent non-executive director and the chairman of audit committee and remuneration committee of the Company. He postgraduated from the Peking University in the PRC and is the Justice of Peace in New South Wales of Australia. Mr. Xin also holds directorships in a number of companies in Hong Kong. He is also the independent non-executive director of Sinolink, a listed public company on the Stock Exchange, a director of Mori Denki Mfg. Co., Ltd., a listed public company on the Tokyo Stock Exchange and a director and Vice Chairman of Oriental Technologies Investment Limited, a listed public company on the Australian Stock Exchange. He has been the independent non-executive director of the Company since April 2001. Save as disclosed above, Mr. Xin has not held any directorship in other listed public companies in the past three years.

Mr. Xin is appointed for a term of one year and is subject to retirement and re-election provisions in the articles of association of the Company. He is entitled to an annual remuneration for an amount of HK$250,000 payable in two equal installments. His remuneration is determined by the Board and the remuneration committee of the Company with reference to his duties and responsibilities with the Company, the Company's performance and the prevailing market situation and to be authorized by the shareholders of the Company at the annual general meeting. Mr. Xin is not entitled to any bonus payments. He does not have any relationship with any directors, senior management, substantial or controlling shareholders of the Company.

QUALIFIED ACCOUNTANT

Ms. Lam Yuen Ming, is the Assistant Financial Controller of the Company. Ms. Lam is a Certified Public Accountant in Hong Kong.

The directors of the Company (the "Directors") present their annual report and the audited consolidated financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 43.

No interim dividend (2007: Nil) was paid to the shareholders during the year. The Board does not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: Nil).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in the authorised and issued share capital of the Company during the year are set out in note 28 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 46.

The Company's reserve available for distribution to shareholders at 31 December 2008 amounted to HK$229,338,000 (2007: HK$246,627,000).

DIRECTORS

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

Executive Directors:

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

Non-executive Director:

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

Independent Non-executive Directors:

Lu Yungang
Xiang Bing *(appointed on 16 December 2008)*
Xin Luo Lin
Davin A. Mackenzie *(resigned on 16 December 2008)*

In accordance with clause 86(2) of the Bye-laws, Dr. Xiang Bing retires at the forthcoming Annual General Meeting ("AGM") and being eligible offers himself for re-election.

In accordance with clause 87(2) of the Bye-laws, Mr. Ou Yaping, Mr. Tang Yui Man Francis and Mr. Xiang Ya Bo shall retire by rotation at the forthcoming AGM and, being eligible, would offer themselves for re-election.

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

No Director proposed for re-election at the forthcoming AGM has a service contract, which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

At 31 December 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 corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required pursuant to: (a) divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in Shares and underlying Shares

		Interest in Shares						
Name of Directors	Capacity	Personal interest	Family interest	Corporate interest	Total interest in Shares	Interest in underlying shares pursuant to share options	Aggregate interest	Approximate percentage of the Company's issued share capital as at 31.12.2008
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%
Ou Yaping	Beneficial owner, interest in controlled corporations and joint interest	—	7,973,476	1,761,735,558 (Note)	1,769,709,034	6,288,000	1,775,997,034	37.05%
Sun Qiang Chang	Beneficial owner	—	—	—	—	15,000,000	15,000,000	0.31%
Tang Yui Man Francis	Beneficial owner	13,893,750	—	—	13,893,750	32,880,000	46,773,750	0.98%
Xiang Ya Bo	Beneficial owner	—	—	—	—	32,880,000	32,880,000	0.69%
Xin Luo Lin	Beneficial owner	—	—	—	—	5,288,000	5,288,000	0.11%

Note: 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" or debentures of the Company and associated corporation.

(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: Personal interest	Corporate interest	Family interest	Total interest in shares	Interest in underlying shares pursuant to share options	Aggregate interest	Approximate percentage of the issued share capital of the associated corporation as at 31.12.2008
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 or debentures of the Company and associated corporation".

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATION

(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 31 December 2008 were as follows:

Name of Directors	Date of grant	Exercise period	Exercise price	Number of Shares subject to outstanding options as at 1.1.2008	Granted during the year	Number of Shares subject to outstanding options as at 31.12.2008	Percentage of the issued share capital of the Company as at 31.12.2008
			HK$				
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%
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%

Name of Resigned Director	Date of grant	Exercise period	Exercise price	Number of Shares subject to outstanding options as at 1.1.2008	Granted during the year	Number of Shares subject to outstanding options as at 16.12.2008	Percentage of the issued share capital of the Company as at 16.12.2008
			HK$				
Davin A.	20.10.2004	20.10.2005 – 19.10.2015	0.500	2,288,000	—	2,288,000	0.05%
Mackenzie	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. These options represent personal interest held by the Directors as beneficial owners.

3. During the year, 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.

4. Mr. Davin A. Mackenzie resigned as an Independent non-executive Director of the Company on 16 December 2008 and the share options held by him were lapsed on 16 January 2009.

(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	Number of shares subject to outstanding options as at 1.1.2008	Number of shares subject to outstanding options as at 31.12.2008	Approximate percentage of the issued share capital of associated corporation as at 31.12.2008
				HK$			
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 shares of any of its associated corporation required to be disclosed pursuant to the SFO.

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

SHARE OPTION SCHEME OF THE COMPANY

The Company operated a share option scheme under which the Board of Directors of the Company may grant options to eligible employees, including Directors and its subsidiaries, to subscribe for Shares in the Company for the recognition of their contributions to the Group. The share option scheme was approved by the shareholders at the special general meeting of the Company on 24 May 2002 ("Date of Adoption") and has a life of 10 years from the Date of Adoption.

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

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

At 31 December 2008, a total of 179,862,008 Shares (representing approximately 3.753% of the existing issued share capital of the Company as at the date of this annual report) may be issued upon exercise of all options which had been granted and yet to be exercised under the share option scheme and a total of 479,310,377 shares (representing approximately 10% of the existing issued share capital of the Company) may be issued upon exercise of all options which may be granted under the share option scheme.

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 year:

	Option types	Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2008
Category 1: Directors						
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
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		127,624,000	—	—	—	127,624,000
Category 2: Resigned Director						
Davin A. Mackenzie	2004B Option	2,288,000	—	—	—	2,288,000
	2007 Option	3,000,000	—	—	—	3,000,000
Total for Resigned Director		5,288,000	—	—	—	5,288,000
Category 3: Employees						
	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 year, no options were granted, exercised or cancelled under the share option scheme of the Company.

3. During the year, 1,250,000 options were lapsed under the share option scheme of the Company.

DIRECTORS' SERVICE CONTRACT

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

DIRECTORS' INTERESTS IN CONTRACTS

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

CONNECTED TRANSACTIONS

During the year, the following connected transactions / continuing connected transactions of the Company were entered into by the Group:

(a) Connected transactions

The related party transactions set out in note 37 to the consolidated financial statements constitute connected transactions under Rule 14A of the Listing Rules and are exempt from reporting, announcement and independent shareholders' approval requirement of Chapter 14A of the Listing Rules.

During the year, there were no transactions which need to be disclosed as connected transaction pursuant to Chapter 14A of the Rules Governing the Listing of Securities of the Stock Exchange.

(b) Continuing connected transactions

On 19 May 2008, Sinolink Worldwide Holdings Limited ("Sinolink") and the Company entered into a Master Agreement for the purpose of regulating the Individual Lease Agreements for leasing of the properties by the Company and its subsidiaries from Sinolink and its subsidiaries, for a fixed term of three years from 1 April 2008 to 31 March 2011 (the "Master Agreement"). The annual cap amount for each of the financial years ended/ending 31 December 2008, 2009, 2010 and 2011 are HK$3,750,000, HK$5,000,000, HK$5,000,000 and HK$1,250,000 respectively. The total amount of the transactions for the year ended 31 December 2008 was HK$3,101,000.

On 19 May 2008, Sinolink and the Company are owned as to approximately 47.50% and 35.50% respectively by Asia Pacific Promotion Limited ("Asia Pacific"). Therefore, Asia Pacific is a substantial shareholder of Sinolink and the Company and thus a connected person of both Sinolink and the Company under the Listing Rules. As Asia Pacific owns more than 30% in both Sinolink and the Company, Sinolink and the Company are the associates of Asia Pacific under the Listing Rules.

Accordingly, the Master Agreement between Sinolink and the Company constitutes continuing connected transaction (the "Continuing Connected Transactions") for both Sinolink and the Company under Chapter 14A of the Listing Rules.

As the relevant percentage ratios for the Master Agreement calculated on an annual basis with aggregation of the consideration under a License Agreement dated 2 January 2008 entered into between Sinolink and a wholly owned subsidiary of the Company are more than 0.1% and less than 2.5% for both Sinolink and the Company, in accordance with Rule 14A.34 of the Listing Rules, the Master Agreement is only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and is exempted from the independent shareholders' approval requirements. The Company had accordingly published an announcement in respect of the Continuing Connected Transactions dated 19 May 2008.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported the factual findings on these procedures to the board of directors. The Independent Non-executive Directors of the Company have reviewed the continuing connected transactions pursuant to Rule 14A.37 of the Listing Rules and the report of the auditor and have confirmed that the transactions have been entered into by the Company in the ordinary and usual course of its business; on terms no less favourable to the Group than terms available from/to independent third parties; and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

SUBSTANTIAL SHAREHOLDERS

At 31 December 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 31.12.2008
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%
Pope Asset Management, LLC	Investment Manager	386,697,961	8.07%
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%

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 deeded 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 31 December 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the sole customer of the Group accounted for all the Group's turnover.

The five largest suppliers of the Group in aggregate accounted for about 84% of its purchases for the year. Purchases from the largest supplier accounted for about 80% of its total purchases.

At no time during the year, did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) have an interest in the largest customers or any of the five largest suppliers of the Group for the year ended 31 December 2008.

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 29 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

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

During the year, the Company has complied with the code provisions as set out in the Code. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 32 to 40 of this annual report.

AUDIT COMMITTEE

The Company has an audit committee ("Audit Committee") which was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non- executive directors. The members of the Audit Committee are Mr. Lu Yungang, Dr. Xiang Bing and Mr. 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 annual results of the Group for the year ended 31 December 2008 had been audited by the Company's auditor, Deloitte Touche Tohmatsu, and had been reviewed by the Audit Committee.

Details of the Company's Audit Committee are set out in Corporate Governance Report on page 37.

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 year ended 31 December 2008.

AUDITOR

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

On behalf of the Board

OU Yaping
Chairman
Hong Kong, 8 April 2009

CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

STATEMENT OF COMPLIANCE

The Company complied with the code provisions as set out in the Code during the year ended 31 December 2008.

BOARD OF DIRECTORS

Composition

The Board comprises 8 members (each member of the Board, a "Director"). Mr. Ou Yaping, an executive Director, acts as the Chairman of the Board, whereas Mr. Chen Wei, an executive Director, acts as Chief Executive Officer of the Company. Other executive Directors are Mr. Tang Yui Man Francis and Mr. Xiang Ya Bo. Mr. Sun Qiang Chang, a non-executive Director, acts as non-executive Vice Chairman of the Company. The Company has three independent non-executive Directors, Mr. Lu Yungang, Dr. Xiang Bing and Mr. Xin Luo Lin. All independent non-executive Directors have appropriate professional accounting experience and expertise. Dr. Xiang Bing was appointed on 16 December 2008 as an independent non-executive Director to fill the casual vacancy occasioned by the resignation of Mr. Davin A. Mackenzie on the same date.

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director is disclosed in pages 10 and 15 of this report.

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

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

Pursuant to the Bye-laws of the Company (the "Bye-laws"), the Directors retire on a rotational basis at least once every three years at the annual general meeting of the Company and are eligible for re-election. In addition, any Director appointed by the Board during a year, whether to fill a casual vacancy or as additional member to the Board, shall hold office only until the next following general meeting (in the case of filling a casual vacancy) or until the next following annual general meeting (in the case of an addition to the Board) of the Company and shall then be eligible for re-election in that meeting.

The term of office of each non-executive Director including the independent non-executive Directors is for a period of 1 year, from 1 January 2009 to 31 December 2009, subject to retirement by rotation and re-election in accordance with the Bye-laws, except for that of Mr. Sun Qiang Chang and Dr. Xiang Bing. Mr. Sun Qiang Chang is a non-executive Director, whose term of office is for a period of 1 year from 2 June 2008 to 1 June 2009 subject to retirement by rotation and re-election in accordance with the Bye-laws. Dr. Xiang Bing is an independent non-executive Director, whose term of office is for a period of 1 year, from 16 December 2008 to 15 December 2009 subject to retirement by rotation and re-election in accordance with the Bye-laws. As Dr. Xiang Bing was appointed by the Board as an independent non-executive Director to fill the casual vacancy occasioned by the resignation of Mr. Davin A. Mackenzie on 16 December 2008, he shall only hold office until the next following general meeting of the Company, and shall be eligible for re-election at that meeting in accordance with the Bye-laws.

Functions

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

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

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

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

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

During the year 2008, the Board held 4 regular Board meetings (within the meaning of the Code) at approximately quarterly interval and 8 Board meetings which were convened as necessary. Due notice and the Board papers were given to all Directors prior to each meeting in accordance with the Code and the Bye-laws. Details of individual attendance of Directors are set out below:–

	No. of meetings attended
Executive Directors	
Ou Yaping *(Chairman)*	12
Chen Wei *(Chief Executive Officer)*	10
Xiang Ya Bo	9
Tang Yui Man Francis	12
Non-executive Director	
Sun Qiang Chang *(Non-executive Vice Chairman)*	5
Independent non-executive Directors	
Lu Yungang	5
Davin A. Mackenzie*	5
Xin Luo Lin	5
Xiang Bing**	0

* Mr. Davin A. Mackenzie resigned as an independent non-executive Director on 16 December 2008.

** Dr. Xiang Bing has been appointed as an independent non-executive Director on 16 December 2008.

Chairman and Chief Executive Officer

The role of the Chairman, Mr. Ou Yaping, remains separate from that of the Chief Executive Officer, Mr. Chen Wei. Such division of responsibilities allows a balance of power between the Board and the management of the Group, and ensures the independence and accountability of each.

The Chairman provides leadership for the Board and oversees the Board so that it acts in the best interests of the Group. The Chairman is responsible for deciding the agenda of each Board meeting, taking into account matters proposed by other Directors. The Chairman has overall responsibility for providing leadership, vision and direction regarding business development.

The Chief Executive Officer, assisted by other executive Directors, is responsible for the day-to-day business management and operations of the Group for formulating and successfully implementing policies and for maintaining an effective executive support team. The Chief Executive Officer is accountable to the Board for keeping the Chairman and all Directors fully informed of all major business developments and issues.

Responsibilities

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

— attending regular board meetings and focusing on business strategy, operational issues and financial performance;

— active participation on the respective boards of directors of the subsidiaries and associated companies of the Company;

— approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities;

— monitoring the quality, timeliness, relevance and reliability of internal and external reporting;

— monitoring and managing potential conflicts of interest of senior management, Board and shareholders of the Company;

— consideration of misuse of corporate assets and abuse in related party transaction; and

— ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

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

Board Committees

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

Remuneration Committee

As at the date of this Annual Report, the Remuneration Committee comprise of two executive Directors, Mr. Ou Yaping and Mr. Xiang Ya Bo, and three independent non-executive Directors, Mr. Lu Yungang, Dr. Xiang Bing and Mr. Xin Luo Lin and is chaired by Mr. Xin Luo Lin.

The terms of reference of the Remuneration Committee comply with the Code.

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

During the year 2008, the Remuneration Committee:

— reviewed the remuneration policy for 2008/2009;

— reviewed the remuneration of executive Directors, non-executive Director and independent non-executive Directors and management year-end bonus;

— reviewed the remuneration of qualified accountant; and

— reviewed and approved the services agreement of executive Directors.

The Remuneration Committee held 5 meetings during 2008 with individual attendance as follows:

Members of Remuneration Committee	**No. of meetings attended**
Ou Yaping	5
Xiang Ya Bo	5
Lu Yungang	5
Davin A. Mackenzie*	5
Xin Luo Lin *(Chairman of the committee)*	5
Xiang Bing**	0

* Mr. Davin A. Mackenzie resigned as a member of Remuneration Committee on 16 December 2008.

** Dr. Xiang Bing has been appointed as a member of Remuneration Committee on 16 December 2008.

Audit Committee

As at the date of this Annual Report, the Audit Committee comprises three independent non-executive Directors, namely Mr. Lu Yungang, Dr. Xiang Bing and Mr. Xin Luo Lin and is chaired by Mr. Xin Luo Lin.

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

The Audit Committee meets regularly with the Company's external auditor to discuss audit process and accounting issues, and reviews effectiveness of internal controls and risk evaluation. Written terms of reference, which describes the authority and duties of the Audit Committee are regularly reviewed and updated by the Board. The adoption of revised terms of reference of Audit Committee in December 2008 in line with the amended listing rules effective on 1 January 2009.

During 2008, the Audit Committee:

— reviewed the financial statements for the year ended 31 December 2007 and for the six months ended 30 June 2008;

— reviewed the effectiveness of the internal control system;

— reviewed the external auditor's audit findings;

— reviewed and approved remuneration of external auditor for 2008; and

— reviewed and recommended the re-appointment of external auditor.

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

Members of Audit Committee	**No. of meetings attended**
Lu Yungang	3
Davin A. Mackenzie*	3
Xin Luo Lin (*Chairman of the committee)*	3
Xiang Bing**	0

* Mr. Davin A. Mackenzie resigned as a member of Audit Committee on 16 December 2008.

** Dr. Xiang Bing has been appointed as a member of Audit Committee on 16 December 2008.

Nomination of Directors

The Board has not established a nomination committee. According to the Bye-laws, the Board has the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. In assessing nomination of new Directors, the Board has taken into consideration of the nominee's qualification, ability and potential contributions to the Company. During the year 2008, the Board considered the appointment of Dr. Xiang Bing as an independent non-executive Director to fill the casual vacancy occasioned by the resignation of Mr. Davin A. Mackenzie. Such appointment was approved by the Board at the Board meeting held on 16 December 2009 attended by the Directors, namely Mr. Ou Yaping, Mr. Tang Yui Man Francis, Mr. Xiang Ya Bo, Mr. Sun Qiang Chang, Mr. Davin A. Mackenzie, Mr. Lu Yungang, Mr. Chen Wei and Mr. Xin Luo Lin, which is the only one Board meeting held in relation to the change of Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that in respect of the year ended 31 December 2008, all Directors have complied with the required standard set out in the Model Code.

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

The Stock Exchange amended the Model Code which was taken effective on 1 January 2009 and 1 April 2009 respectively. Accordingly, the Company adopted the amended Model Code in December 2008 in line with the relevant amendments.

EXTERNAL AUDITOR

The external auditor of the Company is Deloitte Touche Tohmatsu ("Deloitte"). Deloitte provided professional services in respect of the audit of Company's consolidated financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs") for the year ended 31 December 2008. Deloitte also reviewed the 2008 unaudited interim financial report of the Company, prepared under HKFRSs.

Fees charged by Deloitte in respect of audit services for the year 2008 amounted to HK$1,100,000. Non-audit services fees charged by Deloitte were as follows:

Description of professional services rendered in connection with:–

	Fee *HK$'000*
– Reviews of the interim financial report of the Company and its listed subsidiary for the six months ended 30 June 2008	310
– Other services	65
	375

INTERNAL CONTROL

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

GOING CONCERN

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

SHAREHOLDERS COMMUNICATION

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

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

At the 2008 Annual General Meeting, a resolution was proposed by the Chairman in respect of each separate issue itemized on the agenda, including re-election of Directors. The Chairman of the Board and certain member of all Committees attended the 2008 Annual General Meeting and answered questions from the shareholders of the Company.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibility to prepare the financial statements which give a true and fair view of the state of affairs of the Group and of the loss and cash flows of the Group for the year. The statement of the auditor of the Company regarding reporting responsibility for the financial statements is set out in the Independent Auditor's Report on page 41.

Deloitte.
德勤

TO THE MEMBERS OF ENERCHINA HOLDINGS LIMITED
威華達控股有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Enerchina Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 114 which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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 2008 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
8 April 2009

	NOTES	**2008**	2007
		HK$'000	HK$'000
Continuing operation			
Turnover	5	**1,016,532**	1,313,844
Cost of sales		**(998,526)**	(1,232,556)
Gross profit		**18,006**	81,288
Other income	6	**50,049**	87,974
Administrative expenses		**(41,202)**	(62,081)
Other expenses	7	**(409)**	(8,105)
Net (losses) gains on investments held for trading		**(92,404)**	16,108
Share of results of associates		**57,526**	48,170
Finance costs	8	**(69,550)**	(65,976)
Impairment loss recognised in respect of goodwill		**(316,580)**	—
(Loss) profit before taxation	9	**(394,564)**	97,378
Taxation	11	**—**	—
(Loss) profit for the year from continuing operation		**(394,564)**	97,378
Discontinued operations			
Loss for the year from discontinued operations	12	**—**	(108,571)
Loss for the year		**(394,564)**	(11,193)
Attributable to:			
Equity holders of the Company		**(394,497)**	(2,425)
Minority interests		**(67)**	(8,768)
		(394,564)	(11,193)
		HK cents	HK cents
(Loss) earnings per share	14		
From continuing and discontinued operations			
- basic		**(8.23)**	(0.05)
- diluted		**N/A**	N/A
From continuing operation			
- basic		**(8.23)**	2.02
- diluted		**N/A**	2.01

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	15	**1,480,531**	1,417,111
Prepaid lease payments	16	**43,979**	42,309
Intangible assets	17	**—**	—
Goodwill	18	**—**	316,580
Interest in associates	19	**2,355,532**	2,227,366
Available-for-sale investments	20	**24**	1,510
Other receivable	20	**77,976**	—
		3,958,042	4,004,876
Current assets			
Inventories	21	**103,946**	169,941
Prepaid lease payments	16	**1,237**	1,464
Trade and other receivables, deposits and prepayments	22	**136,812**	308,133
Investments held for trading	23	**50,452**	50,439
Pledged bank deposits	24	**23,810**	—
Bank balances and cash	24	**160,155**	466,441
		476,412	996,418
Current liabilities			
Trade, notes and other payables	25	**304,529**	354,186
Taxation payable		**8,922**	8,922
Borrowings - amount due within one year	26	**477,835**	586,760
		791,286	949,868
Net current (liabilities) assets		**(314,874)**	46,550
Total assets less current liabilities		**3,643,168**	4,051,426
Non-current liabilities			
Borrowings - amount due after one year	26	**169,473**	307,409
Deferred taxation	27	**—**	—
		169,473	307,409
Net assets		**3,473,695**	3,744,017

	NOTE	**2008**	2007
		HK$'000	HK$'000
Capital and reserves			
Share capital	28	**47,931**	47,931
Reserves		**3,425,248**	3,695,536
Equity attributable to equity holders of the Company		**3,473,179**	3,743,467
Minority interests		**516**	550
Total equity		**3,473,695**	3,744,017

The consolidated financial statements on pages 43 to 114 were approved and authorised for issue by the Board of Directors on 8 April 2009 and are signed on its behalf by:

Ou Yaping
Chairman

Chen Wei
Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company											
	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Capital reserve HK$'000	General reserve HK$'000 (note 30)	Contributed surplus HK$'000	Share option reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Equity component of share option reserve of a listed subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	48,299	3,019,191	120,398	81,525	6,627	370,544	3,400	38,779	3,688,763	14,002	1,100,205	4,802,970
Exchange differences arising on translation	—	—	52,665	—	—	—	—	—	52,665	—	20,129	72,794
Share of reserve of associates	—	—	84,022	—	—	—	—	—	84,022	—	—	84,022
Total income recognised directly in equity	—	—	136,687	—	—	—	—	—	136,687	—	20,129	156,816
Realised on deemed disposal of partial interest in subsidiaries	—	—	(3,020)	—	—	—	—	—	(3,020)	—	—	(3,020)
Realised on disposal and deemed disposal of subsidiaries	—	—	(51,360)	—	—	—	—	—	(51,360)	—	—	(51,360)
Realised on deemed disposal of associates	—	—	(355)	—	—	—	—	—	(355)	—	—	(355)
Realised on partial disposal of associates	—	—	(443)	—	—	—	—	—	(443)	—	—	(443)
Loss for the year	—	—	—	—	—	—	—	(2,425)	(2,425)	—	(8,768)	(11,193)
Total recognised expense for the year	—	—	(55,178)	—	—	—	—	(2,425)	(57,603)	—	(8,768)	(66,371)
Issue of shares	42	2,124	—	—	—	—	(304)	—	1,862	—	—	1,862
Repurchase of shares	(410)	(26,440)	—	—	—	—	—	—	(26,850)	—	—	(26,850)
Transfer	—	—	—	—	(2,990)	—	—	2,990	—	—	—	—
Recognition of equity-settled share-based payments	—	—	—	—	—	—	608	—	608	—	—	608
Share options lapsed	—	—	—	—	—	—	(634)	634	—	—	—	—
Reduction of contribution surplus (note)	—	—	—	—	—	(370,000)	—	370,000	—	—	—	—
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 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

	Attributable to equity holders of the Company										
	Share capital	Share premium	Translation reserve	Capital reserve	General reserve	Contributed surplus	Share option reserve	Retained earnings	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (note 30)	HK$'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	–	–	49,352	–	–	–	–	–	49,352	33	49,385
Share of reserve of associates	–	–	63,497	–	–	–	–	–	63,497	–	63,497
Total income recognised directly in equity	–	–	112,849	–	–	–	–	–	112,849	33	112,882
Realised on deemed partial disposal of associates	–	–	(74)	–	–	–	–	–	(74)	–	(74)
Share of reserve of associates upon redemption of convertible bonds of associates	–	–	–	–	–	–	–	6,787	6,787	–	6,787
Loss for the year	–	–	–	–	–	–	–	(394,497)	(394,497)	(67)	(394,564)
Total recognised expense for the year	–	–	(74)	–	–	–	–	(387,710)	(387,784)	(67)	(387,851)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	4,647	–	4,647	–	4,647
Share options lapsed	–	–	–	–	–	–	(125)	125	–	–	–
At 31 December 2008	47,931	2,994,875	314,682	81,525	3,637	544	7,592	22,393	3,473,179	516	3,473,695

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Loss for the year	**(394,564)**	(11,193)
Adjustments for:		
Taxation	—	462
Share of results of associates	**(57,526)**	(51,325)
Depreciation of property, plant and equipment	**96,740**	123,356
Release of prepaid lease payments	**1,226**	2,323
Amortisation of intangible assets	—	819
Share-based payment expenses	**4,647**	608
Interest expenses	**69,550**	90,585
Interest income	**(4,227)**	(16,010)
Loss on disposal of property, plant and equipment	**144**	121
Impairment loss recognised in respect of goodwill	**316,580**	—
Net losses (gains) on investments held for trading	**92,404**	(16,108)
Allowance for doubtful debts	—	24,562
Dividend income	**(14,759)**	(521)
Loss on disposal and deemed disposal of subsidiaries	—	77,201
Gain on disposal of a subsidiary	**(433)**	—
Loss on deemed disposal arising from dilution of interest in subsidiaries	—	6,212
Gain on partial disposal of associates	—	(16,008)
(Gain) loss on deemed disposal arising from dilution of interest in associates	**(430)**	6,445
Operating cash flows before movements in working capital	**109,352**	221,529
Decrease (increase) in inventories	**75,712**	(36,119)
(Increase) decrease in investments held-for-trading	**(92,417)**	60,623
Decrease (increase) in trade and other receivables, deposits and prepayments	**105,488**	(213,263)
Decrease in amount due from minority shareholders of a subsidiary	—	(67)
(Decrease) increase in trade, notes and other payables	**(70,520)**	82,369
Cash generated from operations	**127,615**	115,072
Interest paid on banks and other borrowings	**(69,550)**	(90,585)
Taxation paid in other jurisdiction	—	(4,842)
NET CASH FROM OPERATING ACTIVITIES	**58,065**	19,645

	NOTE	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	33	**2,153**	(439,145)
Purchase of property, plant and equipment		**(74,466)**	(78,222)
(Increase) decrease in pledged bank deposits		**(23,810)**	21,515
Proceed from partial disposal of associates		**—**	263,076
Investments in associates		**—**	(214,723)
Prepaid lease payments		**—**	(2,245)
Purchase of available for sale investments		**—**	(24)
Interest received		**4,227**	16,010
Proceeds from disposal of property, plant and equipment		**7**	89
Dividend received		**14,759**	521
NET CASH USED IN INVESTING ACTIVITIES		**(77,130)**	(433,148)
FINANCING ACTIVITIES			
Repayment of bank and other loans		**(731,479)**	(432,327)
New bank loans raised		**432,584**	363,248
Repurchase of shares		**—**	(26,850)
Proceeds from exercise of share options of a listed subsidiary		**—**	5,958
Issue of shares as a result of the exercise of share options		**—**	1,862
NET CASH USED IN FINANCING ACTIVITIES		**(298,895)**	(88,109)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(317,960)**	(501,612)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**466,441**	957,395
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**11,674**	10,658
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		**160,155**	466,441

1. GENERAL

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

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

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 12).

At 31 December 2008, the Group had net current liabilities of approximately HK$315 million and reported a net decrease in cash and cash equivalents of approximately HK$318 million for the year then ended. The Group's liabilities as at 31 December 2008 included bank loans of HK$478 million that are repayable within twelve months from the balance sheet date. Subsequent to the balance sheet date, the Group has obtained loan facilities from banks amounting to approximately HK$471 million. Taking into account of the internally generated funds and the available banking facilities, 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 on a going concern basis. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) - INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) - INT 12	Service concession arrangements
HK(IFRIC) - INT 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

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

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of financial statements[2]
HKAS 23 (Revised)	Borrowing costs[2]
HKAS 27 (Revised)	Consolidated and separate financial statements[3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[2]
HKFRS 3 (Revised)	Business combinations[3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments[2]
HKFRS 8	Operating segments[2]
HK(IFRIC) - INT 9 & HKAS 39 (Amendments)	Embedded derivatives[4]
HK(IFRIC) - INT 13	Customer loyalty programmes[5]
HK(IFRIC) - INT 15	Agreements for the construction of real estate[2]
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation[6]
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners[3]
HK(IFRIC) - INT 18	Transfers of assets from customers[7]

2. APPLICATION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

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

[3] Effective for annual periods beginning on or after 1 July 2009.

[4] Effective for annual periods ending on or after 30 June 2009.

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

[6] Effective for annual periods beginning on or after 1 October 2008.

[7] Effective for transfers on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Improvement to HKFRSs requires property being constructed or developed for future use as investment property to classify as investment property for annual period beginning on or after 1 January 2009. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 and up to the effective date of disposal, as appropriate.

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

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

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

Business combinations

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

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

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

Goodwill arising on acquisitions on or after 1 January 2005

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

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

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

Goodwill arising on acquisitions prior to 1 January 2005

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

Goodwill arising on acquisitions on or after 1 January 2005

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

Revenue from electricity supply is recognised when electricity is supplied.

Revenue from gas supply is recognised when gas is used.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

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

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

Exclusive operating rights for city pipeline network

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts

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

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

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

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

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

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

Financial assets

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

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

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, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Bank borrowings

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

Other financial liabilities

Other financial liabilities including trade, notes and other payables 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.

Share-based payment transactions

Equity-settled share-based payment transactions

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

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

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

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

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

Borrowing costs

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

Leasing

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

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

Retirement benefit costs

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment of goodwill

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

Income taxes

As at 31 December 2008, no deferred tax asset is recognised in the Group's consolidated balance sheet in relation to the estimated unused tax losses of HK$190,842,000 (2007: HK$102,928,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the actual future assessable profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the consolidated income statement for the period in which such recognition takes place.

5. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover

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

	2008	2007
	HK$'000	HK$'000
Continuing operation		
Supply of electricity	**1,016,532**	1,313,844
Discontinued operations		
Sale and distribution of Gas Fuel and related products	**—**	408,396
Gas pipeline construction	**—**	13,063
	—	421,459
	1,016,532	1,735,303

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

Business segments

The Group is primarily engaged in the supply of electricity after the disposal of gas fuel business. In the preceding year ended 31 December 2007, the Group was also involved in gas fuel business which included the sale and distribution of Gas Fuel and related products and gas pipeline construction, which was discontinued on 28 February 2007 (see note 12).

Segment information about these businesses is presented below.

	Electricity supplies HK$'000	Total HK$'000
Year ended 31 December 2008		
TURNOVER	**1,016,532**	**1,016,532**
RESULT		
Segment result	**(322,431)**	**(322,431)**
Other income		**49,619**
Corporate expenses		**(17,754)**
Net losses on investments held for trading		**(92,404)**
Finance costs		**(69,550)**
Gain on deemed disposal arising from dilution of interest in associates		**430**
Share of results of associates		**57,526**
Loss before taxation		**(394,564)**
Taxation		**—**
Loss for the year		**(394,564)**

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

Business segments *(Continued)*

	Continuing operation		Discontinued operations	
	Electricity supplies	**Total**	**Gas fuel business**	**Consolidated**
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2007				
TURNOVER	1,313,844	1,313,844	421,459	1,735,303
RESULT				
Segment result	58,771	58,771	(5,015)	53,756
Other income		88,074	1,804	89,878
Corporate expenses		(41,224)	(31)	(41,255)
Finance costs		(65,976)	(24,609)	(90,585)
Gain on partial disposal of associates		16,008	—	16,008
Loss on deemed disposal arising from dilution of interest in associates		(6,445)	—	(6,445)
Loss on disposal and deemed disposal of subsidiaries		—	(77,201)	(77,201)
Loss on deemed disposal arising from dilution of interest in subsidiaries		—	(6,212)	(6,212)
Share of results of associates		48,170	3,155	51,325
Profit (loss) before taxation		97,378	(108,109)	(10,731)
Taxation		—	(462)	(462)
Profit (loss) for the year		97,378	(108,571)	(11,193)

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

Business segments *(Continued)*

Balance sheet

	Electricity supplies HK$'000	Corporate HK$'000	Consolidated HK$'000
At 31 December 2008			
ASSETS			
Segment assets	1,761,913	—	1,761,913
Interest in associates	—	2,355,532	2,355,532
Unallocated corporate assets			317,009
Consolidated total assets			4,434,454
LIABILITIES			
Segment liabilities	(302,396)	(2,133)	(304,529)
Unallocated corporate liabilities			(656,230)
Consolidated total liabilities			(960,759)

	Electricity supplies HK$'000	Corporate HK$'000	Consolidated HK$'000
OTHER INFORMATION			
Capital additions	73,250	1,216	74,466
Depreciation and amortisation	96,201	539	96,740
Impairment loss recognised in respect of goodwill	316,580	—	316,580
Release of prepaid lease payments	1,226	—	1,226

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

Business segments *(Continued)*

Balance sheet *(Continued)*

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

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

Geographical segments

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

6. OTHER INCOME

Other income mainly comprised of:

	Continuing operation		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest income on:						
- bank deposits	**4,211**	14,728	**—**	1,042	**4,211**	15,770
- others	**16**	240	**—**	—	**16**	240
	4,227	14,968	**—**	1,042	**4,227**	16,010
Dividend income						
- listed	**570**	372	**—**	—	**570**	372
- unlisted	**14,189**	—	**—**	149	**14,189**	149
	14,759	372	**—**	149	**14,759**	521
Insurance recovery of damages and losses incurred in prior years as a result of breakdown of property, plant and equipment	**29,230**	49,842	**—**	—	**29,230**	49,842
Gain on disposal of a subsidiary	**433**	—	**—**	—	**433**	—
Gain on deemed disposal arising from dilution of interest in associates	**430**	—	**—**	—	**430**	—
Gain on partial disposal of associates	**—**	16,008	**—**	—	**—**	16,008

7. OTHER EXPENSES

Other expenses mainly comprised of:

	Continuing operation		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Loss on disposal of property, plant and equipment	**144**	121	**—**	—	**144**	121
Loss on deemed disposal arising from dilution of interest in associates	**—**	6,445	**—**	—	**—**	6,445

8. FINANCE COSTS

	Continuing operation		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest on bank and other borrowings wholly repayable within five years	**69,550**	65,976	**—**	1,459	**69,550**	67,435
Interest on convertible bonds	**—**	—	**—**	2,453	**—**	2,453
Interest on guaranteed senior notes	**—**	—	**—**	20,515	**—**	20,515
	69,550	65,976	**—**	24,427	**69,550**	90,403
Bank charges	**—**	—	**—**	182	**—**	182
	69,550	65,976	**—**	24,609	**69,550**	90,585

9. (LOSS) PROFIT BEFORE TAXATION

	Continuing operation		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
(Loss) profit before taxation has been arrived at after charging:						
Amortisation of intangible assets (included under administrative expenses)	**—**	—	**—**	819	**—**	819
Auditor's remuneration	**2,049**	1,685	**—**	201	**2,049**	1,886
Depreciation of property, plant and equipment	**96,740**	106,057	**—**	17,299	**96,740**	123,356
Release of prepaid lease payments	**1,226**	1,408	**—**	915	**1,226**	2,323
Minimum lease payments under operating leases in respect of rented premises	**12,328**	14,104	**—**	2,254	**12,328**	16,358
Staff costs (including directors' remuneration):						
Retirement benefit scheme contributions	**1,110**	965	**—**	3,959	**1,110**	4,924
Share-based payments	**4,647**	608	**—**	—	**4,647**	608
Salaries and other benefits	**28,081**	23,703	**—**	24,075	**28,081**	47,778
	33,838	25,276	**—**	28,034	**33,838**	53,310
Allowance for doubtful debts	**—**	24,562	**—**	—	**—**	24,562
Share of tax of associates (included in share of results of associates)	**18,598**	9,945	**—**	—	**18,598**	9,945

10. DIRECTORS' AND EMPLOYEES' REMUNERATION

The emoluments paid or payable to each of the nine (2007: eight) directors were as follows:

	Year ended 31 December 2008									
	Mr. Sun Qiang Chang HK$'000	Mr. Ou Yaping HK$'000	Mr. Xiang Ya Bo HK$'000	Mr. Tang Yui Man, Francis HK$'000	Mr. Chen Wei HK$'000	Mr. Xin Luo Lin HK$'000	Mr. Lu Yungang HK$'000	Mr. Davin A. MacKenzie HK$'000	Dr. Xiang Bing HK$'000	Total 2008 HK$'000
Fees	—	—	—	—	—	250	250	250	11	761
Other emoluments										
- salaries and other benefits	—	390	2,002	2,600	1,532	—	—	—	—	6,524
- contributions to retirement benefit schemes	—	12	130	12	23	—	—	—	—	177
- performance and discretionary bonus (Note)	—	403	600	460	424	—	—	—	—	1,887
- share-based payments	—	186	465	465	1,395	140	140	140	—	2,931
Total emoluments	—	991	3,197	3,537	3,374	390	390	390	11	12,280

	Year ended 31 December 2007								
	Mr. Sun Qiang Chang HK$'000	Mr. Ou Yaping HK$'000	Mr. Xiang Ya Bo HK$'000	Mr. Tang Yui Man, Francis HK$'000	Mr. Chen Wei HK$'000	Mr. Xin Luo Lin HK$'000	Mr. Lu Yungang HK$'000	Mr. Davin A. MacKenzie HK$'000	Total 2007 HK$'000
Fees	—	—	—	—	—	250	250	250	750
Other emoluments									
- salaries and other benefits	—	490	2,002	2,650	450	—	—	—	5,592
- contributions to retirement benefit schemes	—	14	120	14	2	—	—	—	150
- performance and discretionary bonus (Note)	—	300	400	1,400	1,500	—	—	—	3,600
- share-based payments	—	24	61	61	183	18	18	18	383
Total emoluments	—	828	2,583	4,125	2,135	268	268	268	10,475

10. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Continued)*

Note: The performance and discretionary bonus are determined by the board from time to time with reference to the directors' duties and responsibilities and the Company's performance and profitability.

The five highest paid individuals of the Group included four directors (2007: four directors) of the Company. Details of their emoluments are included above.

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

	2008 **HK$'000**	2007 HK$'000
Employees		
Salaries and other benefits	**1,079**	650
Contributions to retirement benefit scheme contributions	**—**	—
	1,079	650

Their emoluments are within the following band:

	2008 **Number of employee**	2007 Number of employee
Nil to HK$1,000,000	**—**	1
HK$1,000,001 to HK$1,500,000	**1**	—
	1	1

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

11. TAXATION

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has no assessable profit for the year.

The tax charge of discontinued operations for the year ended 31 December 2007 comprised People's Republic of China ("PRC") Enterprise Income Tax for that year.

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% (2007: ranging from 15% to 33%) for the year ended 31 December 2008. The enactment of the New Law is not expected to have any significant financial effect on the amounts accrued in the consolidated balance sheet in respect of taxation payable and deferred taxation.

Pursuant to relevant laws and regulations in the PRC, certain of the Group's subsidiaries operating in the PRC are entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from first profit making year of operations and thereafter, the subsidiaries are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The reduced tax rate for the relief period is at 9% (2007: ranging from 7.5% to 16.5%). No PRC Enterprise Income Tax has been provided for after taking these tax incentives into account. These tax incentives will be expired by the year 2010.

Details of deferred taxation are set out in note 27.

11. TAXATION *(Continued)*

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

	2008 HK$'000	2007 HK$'000
(Loss) profit before taxation		
Continuing operation	(394,564)	97,378
Discontinued operations	—	(108,109)
	(394,564)	(10,731)
Tax credit at applicable income tax rate of 18% (2007: 15%) (note)	(71,022)	(1,610)
Tax effect of expenses not deductible for tax purpose	75,395	30,462
Tax effect of income not taxable for tax purpose	(11,760)	(8,119)
Tax effect of share of results of associates	(10,355)	(7,699)
Tax effect of tax losses not recognised	15,917	9,744
Effect of tax exemption granted to PRC subsidiaries	(269)	(17,431)
Effect of different tax rates of subsidiaries operating in different jurisdictions	2,094	(4,885)
Taxation for the year	—	462

Note: The tax rate of 18% (2007: 15%) represents PRC Enterprises Income Tax which is applicable to most of the Group's operations in the PRC.

12. DISCONTINUED OPERATIONS

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

The loss for that period from the discontinued operations is 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)
	(108,571)

12. DISCONTINUED OPERATIONS *(Continued)*

The results of the gas fuel business were as follows:

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

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 33.

13. DIVIDENDS

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2007: nil).

14. (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

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

	2008	2007
	HK$'000	HK$'000
Loss for the purpose of basic loss for the year attributable to equity holders of the Company	**(394,497)**	(2,425)

	2008	2007
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**4,793,103,776**	4,792,914,050
Effect of dilutive share options		10,031,890
Weighted average number of ordinary shares for the purpose of diluted earnings per share		4,802,945,940

No diluted loss 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 year ended 31 December 2008.

No diluted loss per share had been presented for the year ended 31 December 2007 on the assumption that the exercise of the share options granted by the Company would decrease the loss per share.

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

From continuing operation

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

	2008	2007
	HK$'000	HK$'000
Loss for the year attributable to equity holders of the Company	**(394,497)**	(2,425)
Less: Loss for the year from discontinued operations attributable to equity holders of the Company	**—**	99,200
(Loss) earnings for the purposes of basic and diluted earnings per share from continuing operation	**(394,497)**	96,775

The denominators used are the same as those detailed above.

No diluted loss per share has been presented for the year ended 31 December 2008 because the exercise price of the Company's options was higher than the average market price for shares during the year.

From discontinued operations

Basic loss per share from discontinued operations for the year ended 31 December 2007 is HK2.07 cents per share based on the loss for the year from the discontinued operations of HK$99 million and the denominators detailed above. No diluted loss per share has been presented for the year on the assumption that the exercise of the share options granted by the Company would decrease the loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC HK$'000	Leasehold improvement HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Gas pipelines HK$'000	Total HK$'000
COST								
At 1 January 2007	348,723	648	27,571	1,797,993	60,996	36,878	1,908,595	4,181,404
Currency realignment	15,374	—	674	113,475	1,443	2,693	29,602	163,261
Additions	7,830	—	4,004	48,709	8,575	8,608	496	78,222
Eliminated upon disposal and deemed disposal of subsidiaries	(277,362)	—	(27,376)	(320,876)	(64,344)	(440)	(1,938,693)	(2,629,091)
Disposals	—	—	(27)	(518)	(254)	—	—	(799)
Transfer	—	—	—	26,195	—	(26,195)	—	—
At 31 December 2007	94,565	648	4,846	1,664,978	6,416	21,544	—	1,792,997
Currency realignment	10,123	—	234	101,082	363	1,319	—	113,121
Additions	—	—	1,002	65,393	1,178	6,893	—	74,466
Disposals	(147)	—	(103)	(5)	(1,262)	—	—	(1,517)
At 31 December 2008	104,541	648	5,979	1,831,448	6,695	29,756	—	1,979,067

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

	Buildings in the PRC HK$'000	Leasehold improvement HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Gas pipelines HK$'000	Total HK$'000
DEPRECIATION								
At 1 January 2007	34,485	376	8,120	290,052	13,145	—	102,920	449,098
Currency realignment	2,205	—	259	25,039	653	—	2,245	30,401
Provided for the year	8,599	265	1,346	101,942	2,174	—	9,030	123,356
Eliminated upon disposal and deemed disposal of subsidiaries	(22,982)	—	(7,314)	(70,728)	(11,161)	—	(114,195)	(226,380)
Eliminated on disposals	—	—	(25)	(365)	(199)	—	—	(589)
At 31 December 2007	22,307	641	2,386	345,940	4,612	—	—	375,886
Currency realignment	1,943	—	84	24,963	286	—	—	27,276
Provided for the year	7,357	7	637	87,817	922	—	—	96,740
Eliminated on disposals	(132)	—	(93)	(5)	(1,136)	—	—	(1,366)
At 31 December 2008	31,475	648	3,014	458,715	4,684	—	—	498,536
CARRYING VALUES								
At 31 December 2008	73,066	—	2,965	1,372,733	2,011	29,756	—	1,480,531
At 31 December 2007	72,258	7	2,460	1,319,038	1,804	21,544	—	1,417,111

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

Buildings	Over the lease term or 50 years, whichever is shorter
Leasehold improvement	15% to 20%
Furniture, fixtures and equipment	18% to 20%
Plant and machinery	6% to 10%
Motor vehicles	6% to 20%
Gas pipelines	3%

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

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2008	2007
	HK$'000	HK$'000
Leasehold land outside Hong Kong with medium-term leases	**45,216**	43,773
Analysed for reporting purposes:		
Non-current portion	**43,979**	42,309
Current portion	**1,237**	1,464
	45,216	43,773

17. INTANGIBLE ASSETS

	HK$'000
COST	
At 1 January 2007	141,154
Currency realignment	2,284
Eliminated upon disposal and deemed disposal of subsidiaries (note 33)	(143,438)
At 31 December 2007 and 31 December 2008	—
AMORTISATION	
At 1 January 2007	4,627
Currency realignment	148
Provided for the year	819
Eliminated upon disposal and deemed disposal of subsidiaries (note 33)	(5,594)
At 31 December 2007 and 31 December 2008	—
CARRYING VALUES	
At 31 December 2007 and 31 December 2008	—

18. GOODWILL

	HK$'000
COST	
At 1 January 2007	1,920,569
Eliminated upon disposal and deemed disposal of subsidiaries (note 33)	(1,556,364)
Eliminated on deemed disposal arising from dilution of interest in subsidiaries as a result of the exercise of share options and conversion of convertible bonds by shareholders and bondholders of Towngas China	(41,384)
Currency realignment	164
At 31 December 2007 and 31 December 2008	322,985
IMPAIRMENT	
At 1 January 2007 and 31 December 2007	(6,405)
Impairment loss recognised	(316,580)
At 31 December 2008	(322,985)
CARRYING VALUES	
At 31 December 2008	—
At 31 December 2007	316,580

18. GOODWILL *(Continued)*

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

	2008 HK$'000	2007 HK$'000
Electricity supplies	**316,580**	316,580
Others	**6,405**	6,405
	322,985	322,985
Impairment loss recognised		
- electricity supplies	**(316,580)**	—
- others	**(6,405)**	(6,405)
	—	316,580

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

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

During the year ended 31 December 2008, the Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next 5 years and extrapolates cash flows for the following 15 years based on an estimated decreasing growth rate of 10% for the first five years and 5% for the sixth to tenth year for electricity supplies, which is based on industry growth forecasts. This rate does not exceed the average long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows is 11%. 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 CGU's past performance and management's expectations for the market development.

19. INTEREST IN ASSOCIATES

	2008	2007
	HK$'000	HK$'000
Cost of investment in associates		
Listed in Hong Kong	**2,092,449**	2,092,019
Share of post-acquisition reserves	**263,083**	135,347
	2,355,532	2,227,366
Fair value of listed investments	**811,645**	2,201,522

During the year, the Group's shareholding in Towngas China was diluted as a result of the exercise of share options by the shareholders of Towngas China. Accordingly, the Group's interest in Towngas China decreased from 27.12% as at 31 December 2007 to 27.10% as at 31 December 2008.

Details of the Group's principal associates as at 31 December 2008 and 2007 are as follows:

Name of associates	Place of incorporation/ establishment and form of business structure	Principal place of operation	Percentage of equity interest attributable to the Group 2008	2007	Principal activities
Towngas China	Cayman Islands - limited liability company	PRC	**27.10%**	27.12%	Sale and distribution of liquefied petroleum gas and natural gas and related services and gas pipeline construction

19. INTEREST IN ASSOCIATES *(Continued)*

In 2008, included in the cost of investment of associates was goodwill of HK$707,482,000 (2007: HK$707,929,000) arising on acquisitions of associates. Details of movements of goodwill are as follows:

	2008 HK$'000	2007 HK$'000
COST		
At 1 January	**707,929**	89,569
Eliminated on disposal and deemed disposal of subsidiaries	**—**	(89,569)
Transfer upon the change of status from subsidiaries to associates	**—**	797,881
Released upon deemed disposal of associates	**(447)**	(8,966)
Released upon partial disposal of associates	**—**	(80,986)
At 31 December	**707,482**	707,929

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

	2008 HK$'000	2007 HK$'000
Total assets	**10,386,545**	9,115,192
Total liabilities	**(4,297,060)**	(3,506,119)
Net assets	**6,089,485**	5,609,073
Group's share of net assets of associates	**1,647,603**	1,519,437
Revenue	**4,409,198**	2,773,975
Profit for the year	**271,187**	168,279
Group's share of profit of associates	**57,526**	51,325

20. AVAILABLE-FOR-SALE INVESTMENTS/OTHER RECEIVABLE

	2008	2007
	HK$'000	HK$'000
Unlisted shares in overseas, at cost	**24**	24
Club debentures, at cost	**—**	1,486
	24	1,510
Other receivable	**77,976**	—

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

Other receivable as at 31 December 2008 represented an advance to the investee of the Group referred to in the preceding paragraph. The advance is unsecured, interest free, and has no fixed repayment terms. The Group expected the amount advanced would be capitalised into additional subscription of shares of that investee company. Subsequent to the balance sheet date, additional shares of the investee were issued to the Group by capitalising the amounts owing to the Group. Accordingly, the amount is classified as non-current.

As at 31 December 2007, the advance with the same carrying amount was included in trade and other receivables.

21. INVENTORIES

	2008	2007
	HK$'000	HK$'000
Fuel oil	**103,946**	169,941

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2008	2007
	HK$'000	HK$'000
Trade receivables	**58,163**	210,111
Other receivables, deposits and prepayments	**78,649**	98,022
	136,812	308,133

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

	2008	2007
	HK$'000	HK$'000
0 to 90 days	**58,163**	210,111

Included in the other receivables, deposits and prepayments at 31 December 2007 was an amount of HK$77,976,000 that represents an advance to an investee of the Group which is unsecured and interest free. During the year ended 31 December 2008, the advance was reclassified as a non-current asset and disclosed separately on the consolidated balance sheet as at 31 December 2008 (see note 20).

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality. The Group does not hold any collateral over these balances. There are no balances included in trade and other receivables which have been past due.

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

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(Continued)

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

	2008	2007
	HK$'000	HK$'000
Balance at beginning of the year	**24,562**	40,000
Eliminated upon disposal and deemed disposal of subsidiaries	**—**	(40,000)
Allowance for doubtful debts	**—**	24,562
Amounts written off as uncollectible	**(24,562)**	—
Balance at end of the year	**—**	24,562

At 31 December 2007, included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of HK$24,562,000 which have either been placed under liquidation, in severe financial difficulties or are more than likely not to be able to recover the amount. The Group does not hold any collateral over these balances.

23. INVESTMENTS HELD FOR TRADING

	2008	2007
	HK$'000	HK$'000
Investments held for trading, at fair value		
Listed shares in Hong Kong	**38,331**	18,979
Listed shares in elsewhere	**566**	3,760
Unlisted managed investment funds	**11,555**	27,700
	50,452	50,439

The fair values of the held for trading investments relating to listed shares are determined based on the quoted market bid prices of underlying securities available on the relevant exchanges.

Unlisted managed investment funds represent funds managed by professional fund managers in the form of fund-of-funds. Fair values of these funds are determined based on valuation provided by the fund-of-funds managers who in turn received the valuation reports from the respective underlying fund managers. The professional fund managers determine the fair values of the underlying investments based on the market quotes from recognised stock exchanges, commodity exchanges, over-the-counters, prime brokers and/or relevant appraisers.

24. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits carry interest at prevailing market rate ranging from 0.72% to 1.98% per annum.

Bank balances carry interest at prevailing market rate ranging from 0.01% to 4.50% (2007: 0.05% to 5.90%) per annum.

25. TRADE, NOTES AND OTHER PAYABLES

	2008 HK$'000	2007 HK$'000
Trade payables	**248,551**	259,853
Other payables and accrued charges	**55,978**	94,333
	304,529	354,186

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

	2008 HK$'000	2007 HK$'000
Within 90 days	**245,096**	256,055
Between 91 - 180 days	**1,378**	3,750
Between 181 - 360 days	**—**	—
Over 360 days	**2,077**	48
	248,551	259,853

26. BORROWINGS

	2008	2007
	HK$'000	HK$'000
Borrowings comprise the following:		
Bank loans - secured	**342,320**	530,921
Bank loans - unsecured	**304,988**	363,248
	647,308	894,169
The maturity of the above borrowings is as follows:		
On demand or within one year	**477,835**	586,760
More than one year but not more than two years	**142,160**	188,339
More than two years but not more than three years	**27,313**	109,202
More than three years but more than four years	**—**	9,868
	647,308	894,169
Less: Amount due within one year shown under current liabilities	**(477,835)**	(586,760)
Amount due after one year	**169,473**	307,409

26. BORROWINGS *(Continued)*

The bank loans mainly comprise of:

	Maturity date	Effective interest rate	Carrying amount 2008 HK$'000	2007 HK$'000
Floating rate bank borrowings:				
Unsecured RMB bank loan of RMB209,000,000 (2007: RMB240,000,000) at basic borrowing rate announced by People's Bank of China	10 April 2009, 30 April 2009, 18 June 2009 and 21 October 2009	5.31% to 7.33%	**236,961**	256,410
Other secured RMB bank loans of RMB217,450,000 (2007: RMB344,130,000)	27 April 2010 and 15 May 2011	7.83% to 8.22%	**246,543**	368,791
Other secured USD bank loans of USD12,360,000 (2007: RMB20,920,000)	20 October 2009 and 20 December 2010	6.28% to 7.04%	**95,777**	162,130
Fixed rate bank borrowings:				
Unsecured RMB bank loan of RMB60,000,000	15 February 2009	8.22%	**68,027**	—
Unsecured RMB bank loan of RMB100,000,000	18 October 2008	7.29%	**—**	106,838
Total bank loans			**647,308**	894,169

The bank loans carry interest at fixed rate, variable rate at 6 month London Interbank Offered Rate ("LIBOR") plus certain percent or 6-month PRC bank interest rate plus certain percent.

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

At 31 December 2008, property, plant and equipment with an aggregate carrying amount of HK$757,824,000 (2007: HK$761,257,000) and bank deposits of HK$23,810,000 (2007: nil) were pledged to banks to secure general banking facilities granted to the Group.

27. DEFERRED TAXATION

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

	Intangible assets	
	2008	2007
	HK$'000	HK$'000
At beginning of the year	**—**	43,140
Currency realignment	**—**	421
Eliminated upon disposal and deemed disposal of subsidiaries (note 33)	**—**	(43,561)
At end of the year	**—**	—

Deferred tax asset has not been recognised in the consolidated financial statements in respect of the estimated tax losses of approximately HK$190,842,000 (2007: HK$102,928,000) available to offset the future assessable profit due to the unpredictability of future profits streams. Included in unrecognised tax losses are losses of HK$70,370,000 (2007: nil) that will expire in 2013. Other losses may be carried forward indefinitely.

28. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2007, 31 December 2007 and 31 December 2008	7,500,000,000	75,000
Issued and fully paid:		
At 1 January 2007	4,829,853,445	48,299
Exercise of share options (note a)	4,233,331	42
Repurchase of shares (note b)	(40,983,000)	(410)
At 31 December 2007 and 31 December 2008	4,793,103,776	47,931

Notes:

(a) During the year ended 31 December 2007, the Company allotted and issued a total of 4,233,331 shares of HK$0.01 each for cash at an exercise price of HK$0.44 per share as a result of the exercise of share options.

(b) During the year ended 31 December 2007, the Company repurchased its own shares through the Stock Exchange as follows:

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

The above shares were cancelled upon repurchase. The nominal value of the cancelled shares of approximately HK$410,000 was charged in the share capital and the premium paid on repurchase of approximately HK$26,440,000 was charged against share premium in accordance with the Bermuda Companies Act 1981.

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2007.

29. SHARE OPTION SCHEMES

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

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

The following tables disclose details of the Company's share options held by employees (including directors) and movements in such holdings during the year ended 31 December 2008 and 2007:

	Number of the share options					
Option scheme	**Outstanding at 1.1.2008**	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**Outstanding at 31.12.2008**	**Vested at the end of the year**
2002 Scheme	181,112,008	—	—	(1,250,000)	179,862,008	76,862,008
Weighted average exercise price	HK$0.48	N/A	N/A	HK$0.45	HK$0.48	HK$0.52

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

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

29. SHARE OPTION SCHEMES *(Continued)*

Had all the outstanding vested share options been fully exercised on 31 December 2008, the Company would have received cash proceeds of HK$39,807,000 (2007: HK$39,917,000).

Details of specific categories of options are as follows:

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

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

During the year ended 31 December 2007, options were granted on 13 November 2007. The estimated fair value of the options granted on the date was HK$0.16.

29. SHARE OPTION SCHEMES *(Continued)*

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

	13 November 2007
Weighted average share price	HK$0.39
Weighted average exercise price	HK$0.45
Expected volatility	51%
Expected life	3.33 - 4.08 years
Risk free rate	3.92%
Expected dividend yield	2.60%

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

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

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

30. RESERVES

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

31. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which mainly includes the bank loans disclosed in note 26 (net of cash and cash equivalents) and equity attributable to equity holders of the Company, comprising issued share capital and reserves including retained earnings.

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

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
FVTPL		
Held for trading	**50,452**	50,439
Loans and receivables (including cash and cash equivalents)	**322,859**	754,989
Available-for-sale financial assets	**24**	1,510
Financial liabilities		
Amortised cost	**940,365**	1,203,815

Financial risk management objectives and policies

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

Foreign currency risk

Certain bank balances and bank borrowings are denominated in foreign currencies which expose the Group to foreign currency risk.

At the balance sheet date, included in the below monetary assets and monetary liabilities are following amount denominated in currency other than the functional currency of the relevant entity to which it relates.

	Bank balance		Bank borrowings	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
United States Dollar ("USD")	**13,957**	133,586	**(95,777)**	(162,130)

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Foreign currency risk *(Continued)*

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 10% (2007: 5%) in exchange rate of USD against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at each balance sheet date for a 10% (2007: 5%) change in foreign currency rates.

The sensitivity analysis includes bank balances, loan and bank borrowings where the denomination of the balances is in a currency other than the currency of the respective group entities. A positive number below indicates a decrease in loss for the year ended 31 December 2008 and 2007 where RMB strengthen 10% (2007: 5%) against USD. For a 10% (2007: 5%) weakening of RMB against USD, there would be an equal but opposite impact on the loss for the year, and the balances below would be negative.

	2008	2007
	HK$'000	HK$'000
Impact on loss for the year	**7,370**	1,373

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

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings and cash flow interest rate risk in relation to variable-rate bank borrowings (see note 26) and variable-rate bank deposits. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the balance sheet date. For variable-rate bank borrowings and bank deposits, the analysis is prepared assuming the amount of liability and bank deposits outstanding at the balance sheet date was outstanding for the whole year. A 70 basis point (2007: 50 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The management adjusted the sensitivity rate from 50 basis points to 70 basis points for assessing interest rate risk after considering the impact of the volatile financial market conditions after the third quarter of 2008.

If interest rates had been 70 basis points (2007: 50 basis points) higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2008 would increase/decrease by approximately HK$2,767,000 (2007: HK$1,604,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the impact of the volatile financial market condition in 2008.

Other price risk

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

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date from investments held for trading. Due to the fluctuation of the share market, a higher percentage is adopted in the following sensitivity analysis in current year.

If the prices of the respective equity instruments had been 15% (2007: 10%) higher/lower, loss for the year ended 31 December 2008 decrease/increase by HK$7,568,000 (2007: HK$5,044,000) as a result of the changes in fair value of investments held for trading.

The Group's sensitivity to investments held for trading has increased during the year mainly due to the violate fluctuation in the share market during the year.

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

Credit risk

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

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

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

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk

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

As mentioned in note 1, the Group has obtained loan facilities from banks amounting to approximately HK$471 million. Taking into account of the internally generated funds and the available banking facilities, 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 on a going concern basis.

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

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk ***(Continued)***

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month HK$'000	1 - 3 months HK$'000	3 months to 1 year HK$'000	1 - 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2008 HK$'000
2008							
Non-derivative financial liabilities							
Trade payables	—	6,368	159,363	82,820	—	248,551	248,551
Other payables	—	1,699	654	42,153	—	44,506	44,506
Bank loans							
- variable rate	7.31	14,247	58,309	378,443	182,369	633,368	579,281
- fixed rate	8.22	—	68,717	—	—	68,717	68,027
		22,314	287,043	503,416	182,369	995,142	940,365

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

32. FINANCIAL INSTRUMENTS *(Continued)*

Fair value

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

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

The directors consider that the carrying amounts of financial assets other than available-for-sale investments and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

33. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2008, the Group disposed of its entire equity interest in a subsidiary whose principal asset is a club membership. The net assets of that subsidiary at the date of disposal were as follows:

	2008 HK$'000
Available-for-sale investments	**1,486**
Other receivable, deposits and prepayments	**234**
Net assets	**1,720**
Gain on disposal	**433**
Total consideration	**2,153**
Satisfied by:	
Cash	**2,153**
Net inflow of cash and cash equivalents in respect of disposal of a subsidiary	**2,153**

33. DISPOSAL OF SUBSIDIARIES *(Continued)*

The Company's shareholding in Towngas China sub-group has been diluted following the completion of the series of transactions as referred to in note 12. Towngas China became an associate of the Company with effect from 1 March 2007. The net assets of Towngas China immediately before the completion of the transactions were as follows:

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

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

34. OPERATING LEASE ARRANGEMENT

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

	2008	2007
	HK$'000	HK$'000
Within one year	**4,439**	480
In the second to fifth year inclusive	**8,610**	1,922
Over five years	**17,964**	1,441
	31,013	3,843

Leases are negotiated for terms up to 20 years (2007: 10 years).

35. CAPITAL COMMITMENTS

	2008	2007
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**5,638**	5,562

36. RETIREMENT BENEFIT SCHEMES

In December 2000, the Group enrolled all non-PRC employees in a Mandatory Provident Fund ("MPF") Scheme. The assets of the MPF Scheme are held separately from those of the Group under the control of trustees. The retirement benefit cost for the MPF charged to the consolidated income statement represents contributions paid and payable to the fund by the Group at rates specified in the rules of the MPF Scheme. During the year ended 31 December 2008, the total expenses recognised in the consolidated income statement are HK$317,000 (2007: HK$315,000).

The Group's subsidiaries operating in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. All PRC employees are entitled to an annual pension equal to a fixed portion of their ending basic salaries at their retirement dates. The Group is required to make specific contributions to the retirement schemes at a rate of 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made. During the year ended 31 December 2008, the total expense recognised in the consolidated income statement are HK$793,000 (2007: HK$4,609,000).

37. RELATED PARTY TRANSACTIONS

During the year, the Group paid office expenses of HK$3,101,000 (2007: HK$1,390,000) to Sinolink Worldwide Holdings Limited, a shareholder of the Group. The office expense is determined with reference to actual costs incurred.

Details of balances with related parties and other transactions with related parties are also set out in other notes to the consolidated financial statements.

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 10.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2008 and 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company				Principal activities
			2008		2007		
			Directly	Indirectly	Directly	Indirectly	
			%	%	%	%	
Ace Energy Holdings Limited	BVI - Limited liability company	US$1	100	—	100	—	Investment holding
Beijing Zhonglian Far East Engineering & Project Management Consulting Services Co., Ltd. 北京中聯遠東工程管理諮詢有限公司	PRC - Sino-foreign equity joint venture	RMB 10,000,000	—	70	—	70	Management services and technical consultancy
Enerchina Investments Limited	BVI - Limited liability company	US$1	100	—	100	—	Investment holding
Enerchina Oil and Petrochemical Company Limited	BVI - Limited liability company	US$1	100	—	100	—	Procurement of fuel oil
Enerchina Resources Limited	Hong Kong - Limited liability company	HK$2	100	—	100	—	Provision of management services
Goodunited Holdings Limited	BVI - Limited liability company	US$1	—	100	—	100	Investment holding
Hanka Limited	Hong Kong - Limited liability company	HK$2	—	—	50	50	Holding of club membership
Kenson Investment Limited	BVI - Limited liability company	US$1	100	—	100	—	Investment holding
Million Profits Investments Limited	BVI - Limited liability company	US$1	—	100	—	—	Investment holding

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company				Principal activities
			2008		2007		
			Directly	**Indirectly**	Directly	Indirectly	
			%	**%**	%	%	
Moreluck Enterprises Limited	BVI - Limited liability company	US$1	**100**	**—**	100	—	Investment holding
Rado International Limited	BVI - Limited liability company	US$1	**100**	**—**	100	—	Investment holding
Roxy Link Limited	BVI - Limited liability company	US$1	**—**	**100**	—	100	Investment holding
Shenzhen Fuhuade Electric Power Co., Ltd. 深圳福華德電力有限公司	PRC - Sino-foreign equity joint venture	RMB 224,500,000	**—**	**100**	—	100	Electricity supplies
Sinolink Electric Power Company Limited 百仕達電力有限公司	Hong Kong - Limited liability company	HK$2 ordinary shares and HK$100,000 non-voting deferred shares	**—**	**100**	—	100	Investment holding
Sinolink Industrial Limited	BVI - Limited liability company	US$50,000	**100**	**—**	100	—	Investment holding
Supreme All Investments Limited	BVI - Limited liability company	US$1	**100**	**—**	100	—	Investment holding
威華達信息管理（深圳）有限公司	PRC - Limited liability company	RMB 10,000,000	**100**	**—**	—	—	Investment holding

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008 HK$'000**
	For the year ended 31 December				
RESULTS					
Turnover	856,431	2,820,170	3,804,168	1,735,303	**1,016,532**
Profit (loss) before taxation	130,931	318,609	(149,566)	(10,731)	**(394,564)**
Taxation	—	(33,828)	(17,879)	(462)	**—**
Profit (loss) for the year	130,931	284,781	(167,445)	(11,193)	**(394,564)**
Attributable to:					
Equity holders of the Company	90,331	190,958	(79,621)	(2,425)	**(394,497)**
Minority interests	40,600	93,823	(87,824)	(8,768)	**(67)**
Profit (loss) for the year	130,931	284,781	(167,445)	(11,193)	**(394,564)**

	2004 HK cents	2005 HK cents	2006 HK cents	2007 HK cents	**2008 HK cents**
	For the year ended 31 December				
Earnings (loss) per share					
Basic	3.91	4.88	(1.65)	(0.05)	**(8.23)**
Diluted	3.90	4.83	N/A	N/A	**N/A**

	As at 31 December				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	2,943,620	9,121,347	8,803,137	5,001,294	**4,434,454**
Total liabilities	(1,463,497)	(4,363,977)	(4,000,167)	(1,257,277)	**(960,759)**
	1,480,123	4,757,370	4,802,970	3,744,017	**3,473,695**
Equity attributable to equity holders of the Company	1,372,610	3,740,234	3,688,763	3,743,467	**3,473,179**
Equity component of share option reserve of a listed subsidiary	—	6,090	14,002	—	**—**
Minority interests	107,513	1,011,046	1,100,205	550	**516**
	1,480,123	4,757,370	4,802,970	3,744,017	**3,473,695**