Enerchina Holdings Limited

威華達控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 622

2010 Annual Report

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

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)*

COMPANY SECRETARY

Lo Tai On

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

28th Floor, Infinitus 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 in association with Ashurst Hong Kong
Norton Rose
Woo, Kwan, Lee & Lo
(As to Bermuda law)
Conyers Dill & Pearman

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Hangzhou
China Construction Bank
Hang Seng Bank Limited
Shanghai Pudong Development Bank
China Merchants Bank
UBS AG

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CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), I hereby present the annual results of Enerchina Holdings Limited ("Enerchina" or the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2010 to the shareholders of the Company ("Shareholders").

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2010, the Group recorded a turnover of HK$401.7 million, a decrease of 46.6% compared with the same period last year. Gross loss amounted to HK$39.1 million for the year ended 31 December 2010, a decrease of 66.3% compared with the same period last year. The negative results were mainly due to delays in the receipt of subsidies for fuel cost and the impact of fuel tax which increased the Group's production cost for the year.

The Group's audited consolidated loss attributable to owners of the Company for the year ended 31 December 2010 amounted to HK$683.2 million, an increase of approximately HK$644.9 million compared with the audited consolidated loss attributable to owners of the Company of HK$38.3 million for the year ended 31 December 2009. This was mainly attributable to a loss of approximately HK$847.6 million recognized in the accounts of the Company as a result of the disposal and deemed disposal of an associate.

OVERVIEW

The PRC recorded a GDP growth of 10.3% in 2010, up 1.1 percentage points over last year. It was close to the 1978-2009 long-term average growth of 9.9%, continuing the country's stable trend of rapid development. Driven by this macroeconomic environment, the energy economy gained further momentum, as reflected by the increase in supply reliability and rising energy consumption. Overall, the energy sector continued to hold steady during the year.

The Group sold 335 million shares of an associate through two disposals during the year and realized cash of approximately HK$1.208 billion. Moreover, as disclosed in the Company's announcement dated 24 December 2010, the Group agreed to dispose its electricity generation business at a consideration of approximately RMB1,037.6 million (approximately HK$1,206.6 million) (subject to adjustment). The transaction was approved by Shareholders at a special general meeting of the Company held on 8 February 2011. The Group plans to utilize the cash realized from the disposals to continue investing in quality assets in the energy sector, other related businesses and investment in financial services, properties investments and other business.

OUTLOOK

With the 12th Five-Year Plan takes effect, the relevant policies and measures will help transform the Chinese economic structure and facilitate its long-term development. 2011 will see the full-steam implementation of renewable energy development and the launch of seven new strategic industries as laid out in the 12th Five-Year Plan, ushering in a series of new growth opportunities in the PRC.

The Group will carefully study the relevant policies of the state and utilize its strong cash position to capture favourable investment and merger and acquisition opportunities and to diversify its operations so as to generate stable and satisfactory long-term returns for the Shareholders.

APPRECIATION

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

OU Yaping
Chairman

Hong Kong, 28 March 2011

BUSINESS REVIEW

Overview of Electricity Generation Business

During the year, the Group's on-grid electricity generation amounted to 522 million kWh, a decrease of 49.6% compared to 1,036 million kWh in 2009. The decrease was mainly attributable to the Group's prudent measure to maintain its cash flow by scaling down the operations of electricity generators that consume a higher amount of fuel, following serious delays in the receipt of subsidies for fuel cost. As a result of this measure, there was a decline in the overall operating hours of the Group's electricity generators, which led to a significant drop in electricity generation.

Notwithstanding the strong demand for electricity, the Shenzhen government's basic principle behind its subsidy policy remained that electricity plants would be safeguarded from incurring a loss. However, due to various reasons, there were serious delays in the granting of subsidies and such holdups affected the timely arrangement of funding for electricity generation. Recently, the Group has received previous subsidies. During the year, direct operating expenses attributable to electricity supplies decreased by 51.3% to HK$423.0 million. Total fuel cost for the period also decreased by 56.5% to HK$324.8 million.

As disclosed in the Company's announcement dated 24 December 2010, the Group agreed to dispose its electricity generation business at a consideration of approximately RMB1,037.6 million (approximately HK$1,206.6 million) (subject to adjustment). The transaction was approved by Shareholders at a special general meeting held on 8 February 2011.

Overview of Gas Fuel Business through its Major Associate, Towngas China Company Limited ("Towngas China")

In mid-March 2010, Towngas China entered into an agreement with Hong Kong & China Gas Limited's subsidiary (as vendor) to acquire six piped city-gas projects in the Liaoning and Zhejiang provinces (the "Acquisition") with the consideration settled by Towngas China's allotment and issue of consideration shares to the vendor. Upon completion of the Acquisition on 15 July 2010, the Group's interest in Towngas China was diluted to approximately 18.19%. The Group has reclassified the associate as an investment.

Disposal of Shares in Towngas China

On 16 April 2010, the Company completed the placing of 85,000,000 shares of Towngas China at HK$3.6 per share which represented approximately 4.34% of the total issued share capital of Towngas China. Net proceeds from the placing amounted to approximately HK$301 million.

On 4 June 2010, the Company dispatched a circular to Shareholders to seek a mandate to dispose the remaining shares it holds in Towngas China. The mandate was granted at a special general meeting of the Company held on 22 June 2010. Under the mandate authorized by Shareholders at the special general meeting, the Company may dispose all the remaining Towngas China shares in the 12 months commencing the passing of the relevant resolution at the special general meeting subject to the following two conditions:

(1) the selling price per remaining Towngas China share shall represent no more than 20% discount to the average closing price of Towngas China shares in the five trading days immediately prior to the date of the relevant sale and purchase agreement;

(2) the minimum selling price per remaining Towngas China share shall not be less than HK$3.00.

On 13 November 2010, the Company announced that it placed 250,000,000 shares of Towngas China at HK$3.63 per share which represented approximately 10.21% of the total issued share capital of Towngas China. Net proceeds from the placing amounted to approximately HK$907 million. Immediately after the placing, the Group was interested in 7.98% of the total issued share capital of Towngas China.

A loss of approximately HK$847.6 million was recognized in the accounts of the Company as a result of the disposal and deemed disposal of the associate.

Acquisition of the Entire Interest of Deluxe International Investment Limited ("Deluxe")

On 30 June 2010, the Group and ADD Midland Holdings Ltd. entered into an agreement to acquire the entire issued share capital of Deluxe at a cash consideration of US$11,086,226 (equivalent to approximately HK$86,173,000). As a condition of the sale and purchase, the Group agreed to settle, for and on behalf of Deluxe on completion of the acquisition, the outstanding principal of convertible bonds issued by Deluxe, which amounted to US$2,413,774 (equivalent to approximately HK$18,762,000). The acquisition was completed in late July 2010, following which Deluxe became an indirect wholly-owned subsidiary of the Company.

The principal asset of Deluxe is its 100% equity interest in Henan ADD Electricity Equipment Co., Ltd. ("Henan ADD"). The principal activities of Henan ADD are the production and sale of porcelain insulators, and the acquisition represents the continuation of the Group's businesses in the energy section. The directors of the Company (the "Directors") believe that Henan ADD, as a production enterprise for high voltage porcelain products, will broaden the Company's market share in the local and international markets in the energy and power industry and contribute to the Company's development and enable the Company to establish a strong and competitive foundation within the industry.

Disposal of interests in Shenzhen Fuhuade Electric Power Co., Ltd. ("Fuhuade")

On 19 December 2010, Sinolink Electric Power Company Limited ("Sinolink Electric" which owns a 70% interest in Fuhuade) and Goodunited Holdings Limited ("Goodunited" which owns a 30% interest in Fuhuade), being indirect wholly-owned subsidiaries of the Company, entered into an agreement with CNOOC Gas & Power Group to sell the entire equity interest in Fuhuade to CNOOC Gas & Power Group at a consideration of RMB1,037,641,800 (approximately HK$1,206,560,000) (subject to adjustment). CNOOC Gas & Power Group is a wholly-owned subsidiary of China National Offshore Oil Corporation, which is the controlling shareholder of CNOOC Limited, a company listed on The Hong Kong Stock Exchange Limited (the "Stock Exchange"). The principal business of CNOOC Gas & Power Group includes technology development for oil and natural gas (including liquefied natural gas), development and petrochemical engineering, and power development and supply.

The transaction was approved by Shareholders at a special general meeting held on 8 February 2011. The Company received the first instalment payment of RMB200,000,000 in January 2011. On 23 February 2011, Fuhuade received the approval notice from the Market Supervision Administration of Shenzhen Municipality on the change of registration and has subsequently obtained a new business license.

Fuhuade is principally engaged in the generation and sale of electricity, with a power generation capacity of 595 megawatt. The operation of Fuhuade has been difficult due to the serious delays in the granting of subsidies, tax imposed on fuel oil by the PRC government, and limited supply of natural gas. The cashflow of Fuhuade remains tight and is required to service its significant indebtedness. This might adversely affect the cashflow position and the going concern of the Group. In view of the above, the Directors consider that the continuation of the business of Fuhuade may not be in the interests of the Shareholders and the Company as a whole.

Subscription of shares of Hennabun Capital Group Limited ("Hennabun")

On 1 November 2010, Ideal Principles Limited ("Ideal Principles"), a wholly-owned subsidiary of the Company, and Hennabun entered into an agreement to subscribe for shares of Hennabun that represent a 19.69% interest of the enlarged issued share capital of Hennabun at a consideration of approximately HK$200,000,000.

Hennabun together with its subsidiaries are principally engaged in brokerage business, securities brokerage, margin financing, investment advisory and investment holding. Following completion of the transaction, Hennabun has become an investment of the Group. Hennabun is a subsidiary of Freeman Corporation Limited (stock code: 279). The Directors believe that the subscription will enable the Company to hold a strategic investment into the market of the securities and investment business and to seek out investment opportunities through Hennabun's business and operation, which the Directors believe will benefit the Group in the longer term.

Subscription of shares of Cordoba Homes Limited ("Cordoba")

On 25 January 2011, Ideal Principles and Cordoba entered into an agreement pursuant to which Cordoba agreed to issue and Ideal Principles agreed to subscribe for the 500,000,000 shares of Cordoba, representing approximately 18.01% of the issued share capital of Cordoba at the subscription price of HK$300,000,000. As Ideal Principles owns 15.92% of the issued share capital of Hennabun and Hennabun owns 17.57% issued share capital of Cordoba. Hence, the Company effectively owns approximately 20.81% of the issued share capital of Cordoba direct and indirectly.

Cordoba is incorporated in the British Virgin Islands with limited liability and principally engaged in property investment, near to cash investments (such as investment in securities trading and money lending business), and investment holding.

The Directors believe that the subscription will enable the Company to enter into the property investment market by leveraging the expertise of Cordoba Group and to seek for investment opportunities through Cordoba Group's business and operation, which the Directors believe will benefit the Group in the longer term. In addition, the subscription price of HK$0.60 each Cordoba share incorporates an approximately 21.05% discount to the unaudited consolidated net assets per Cordoba share of approximately HK$0.76 as at 31 October 2010. The Directors consider that the terms of the agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

FINANCIAL POSITION

The Group's total borrowings increased from HK$610.0 million as at 31 December 2009 to HK$941.2 million as at 31 December 2010. The bank borrowings as at 31 December 2010 were bank loans mainly used to finance the expansion of the power plant in Shenzhen. Gearing ratio as at 31 December 2010, calculated on the basis of total borrowings over shareholders' equity, was 32.9% as compared to 17.4% as at 31 December 2009. The Group is in a net cash position and bank borrowings are mainly arranged at floating interest rates.

Total assets pledged in securing these loans have a net book value of HK$906.7 million as at 31 December 2010. 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$1,006.9 million and HK$55.3 million, respectively, as at 31 December 2010 and are mostly denominated in RMB, HKD and USD.

CAPITAL COMMITMENTS

As at 31 December 2010, the Group had capital commitments in respect of the acquisition of property, plant and equipment not provided in the financial statements amounting to HK$14.1 million.

PROSPECTS

2011 is the first year of the PRC's 12th Five-Year Plan, the implementation of which will inject new propelling force into the economy. The PRC will adopt proactive fiscal policy and prudent monetary policy to accelerate the transformation of its economic model and adjust the economic structure.

We will carefully monitor and study the major policies and measures to be introduced under the12th Five-Year Plan, and will continue to pursue investment opportunities with good strategic value in the energy sector and investment in financial services, properties investment and other areas in order to enhance the shareholder value of the Company.

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 2010 (2009: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group employed approximately 665 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.

DIRECTORS AND OFFICERS

EXECUTIVE DIRECTORS

Mr. Ou Yaping, aged 49, has been appointed as an executive director and the chairman of the Company since May 2002 and June 2005. Mr. Ou is a substantial shareholder and a member of remuneration committee of the Company. He is also the chairman and an executive director of Sinolink Worldwide Holdings Limited ("Sinolink"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Ou also serves as the chairman of the board of Rockbund Art Museum and a trustee for The Nature Conservancy's Asia Pacific and China Program. He was previously a director of China Merchants Bank and had held offices in a number of trading companies and investment companies. Mr. Ou 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 of the Beijing Institute of Technology. Mr. Ou is a brother of Mr. Xiang Ya Bo, an executive director of the Company. He is also the director and shareholder 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". He resigned as an executive director of Towngas China Company Limited, a company listed on the Stock Exchange, effective from 16 March 2011. Save as disclosed above, Mr. Ou has not held any directorship in other listed public companies in the past three years.

Mr. Chen Wei, aged 49, has been appointed the chief executive officer and an executive director of the Company since May 2007. He is currently an executive director of Sinolink, a company 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 25 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 was as an executive director of Towngas China Company Limited, a listed company on the Stock Exchange, during 2001-2009. Save as disclosed above, Mr. Chen has not held any directorship in other listed public companies in the past three years.

Mr. Xiang Ya Bo, aged 54, has been appointed an executive director of the Company since May 2002 and a member of remuneration committee of the Company. Mr. Xiang is also an executive director of Sinolink, a company listed on the Stock Exchange. He is a brother of Mr. Ou Yaping, the chairman of the Board, an executive director and a substantial shareholder of the Company. He graduated with an engineering degree. Mr. Xiang has over 25 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. Save as disclosed above, Mr. Xiang has not held any directorship in other listed public companies in the past three years.

Mr. Tang Yui Man Francis, aged 48, has been appointed an executive director of the Company since May 2002. Mr. Tang is also the chief executive officer and an executive director of Sinolink, a company 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. He resigned as an alternate director to Mr. Ou Yaping of Towngas China Company Limited, a listed company on the Stock Exchange, effective from 16 March 2011. Save as disclosed above, Mr. Tang has not held any directorship in other listed public companies in the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lu Yungang, aged 48, has been appointed an independent non-executive director of the Company since May 2004 and a 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 was a research analyst at a number of leading investment banks. Mr. Lu has over 16 years of experience in investment research and management. He is also an independent non-executive director of AsiaInfo Holdings, Inc. and China Techfaith Wireless Communication Technology Ltd., which are listed public companies on the Nasdaq, and of China Cord Blood Corporation effective from 30 June 2009, which is a listed public company on the New York Stock Exchange. Mr. Lu was an independent non-executive director of Spreadtrum Communications, Inc., a listed company on the Nasdaq, during 2007-2009, and of Kasen International Holdings Limited, a listed company on the Stock Exchange, during 2005-2009. Save as disclosed above, Mr. Lu has not held any directorship in other listed public companies in the past three years.

Dr. Xiang Bing, aged 49, has been appointed an independent non-executive director of the Company since December 2008. He is also a 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 11 years of teaching experience in the academic field. Dr. Xiang is currently the founding dean and a professor of the Cheung Kong Graduate School of Business (長江商學院). He is an independent non-executive director and a member of audit committee and remuneration committee of China Dongxiang (Group) Co., Ltd, Dan Form Holdings Company Limited, Longfor Properties Co., Ltd., Sinolink and HC International, Inc.; an independent non-executive director and the chairman of remuneration committee of Little Sheep Group Limited, an independent non-executive director and the chairman of audit committee and remuneration committee and a member of nomination committee of Peak Sport Products Co., Limited, all of which are companies listed on the Stock Exchange. Dr. Xiang is also an independent non-executive director and a member 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 the New York Stock Exchange and an independent non-executive director and a member of audit committee and remuneration committee of Perfect World Co., Ltd., a company listed on Nasdaq. He is an independent non-executive director and a member of audit committee and Strategic committee and the chairman of remuneration committee of Yunnan Baiyao Group Co., Ltd., a company listed on the Shenzhen Stock Exchange. He was a director of Jutal Offshore Oil Services Limited, a company listed on the Stock Exchange, a 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. Dr. Xiang resigned as an independent non-executive director of E Fund Management Co., Ltd, a company listed on the Shenzhen Stock Exchange, on 29 June 2010. Save as disclosed above, Dr. Xiang has not held any directorship in other listed public companies in the past three years.

Mr. Xin Luo Lin, aged 62, has been appointed an independent non-executive director of the Company since April 2001 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 an independent non-executive director of Sinolink, an independent non-executive director, a member of audit committee and member of remuneration committee of Central China Real Estate Limited on 1 March 2010, a non-executive director of Asian Capital Holdings Limited on 18 June 2010 and a non-executive director of Sino-Tech International Holdings Limited on 26 August 2010, all are listed companies on the Stock Exchange. Mr. Xin is a director of Mori Denki Mfg. Co., Ltd., a listed company on the Tokyo Stock Exchange and a director and the Vice Chairman of Oriental Technologies Investment Limited, a listed company on the Australian Stock Exchange. Save as disclosed above, Mr. Xin has not held any directorship in other listed public companies in the past three years.

OFFICERS

Various aspects of the Group's business are respectively under the direct responsibility of the four Executive Directors holding executive offices of the Company as named above. These Executive Directors are also regarded as member of the Group's senior management.

The directors of the Company (the "Directors") present their annual report and the audited consolidated financial statements for the year ended 31 December 2010.

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 2010 are set out in the consolidated statement of comprehensive income on pages 35 to 36.

No interim dividend (2009: 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 2010 (2009: 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 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 25 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 39.

The Company's reserves available for distribution to shareholders at 31 December 2010 amounted to HK$196,572,000 (2009: HK$234,407,000).

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)* *(retired on 1 June 2010)*

Independent Non-executive Directors:

Lu Yungang
Xiang Bing
Xin Luo Lin

In accordance with clause 87(2) of the bye-laws of the Company ("Bye-laws"), Mr. Lu Yungang, Mr. Tang Yui Man Francis and Mr. Xiang Ya Bo shall retire by rotation at the forthcoming annual general meeting 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 annual general meeting 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 2010, 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:

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 issued share capital of the Company as at 31.12.2010
Chen Wei	Beneficial owner	13,162,500	–	–	13,162,500	41,910,000	55,072,500	0.77%
Lu Yungang	Beneficial owner	–	–	–	–	7,387,336	7,387,336	0.10%
Ou Yaping	Beneficial owner, interest in controlled corporations and joint interest	–	11,960,214	2,617,180,764 (Note)	2,629,140,978	8,784,336	2,637,925,314	36.69%
Tang Yui Man Francis	Beneficial owner	20,840,625	–	–	20,840,625	45,933,360	66,773,985	0.93%
Xiang Ya Bo	Beneficial owner	–	–	–	–	45,933,360	45,933,360	0.64%
Xin Luo Lin	Beneficial owner	9,999,000	–	–	9,999,000	7,387,336	17,386,336	0.24%

Note: 2,617,180,764 Shares represent the aggregate of (i) 2,557,105,618 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 together with his associates hold a total of 44.28% of the existing issued share capital of Sinolink as at 31 December 2010 and is therefore deemed to be interested in all these 2,617,180,764 Shares under the SFO.

Details of the Directors' interests in share options granted by the Company are set out below 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

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 2010 were as follows:

Name of Directors	Date of grant	Exercise period	Exercise price *HK$*	Number of Shares subject to outstanding options as at 1.1.2010	Granted/ exercise during the year	Number of Shares subject to outstanding options as at 31.12.2010	Percentage of the issued share capital of the Company as at 31.12.2010
Chen Wei	13.11.2007	01.01.2010 – 12.11.2017	0.322	20,955,000	–	20,955,000	0.29%
	13.11.2007	01.01.2011 – 12.11.2017	0.322	20,955,000	–	20,955,000	0.29%
Lu Yungang	09.06.2004	09.06.2005 – 08.06.2014	0.315	3,196,336	–	3,196,336	0.04%
	13.11.2007	01.01.2010 – 12.11.2017	0.322	2,095,500	–	2,095,500	0.03%
	13.11.2007	01.01.2011 – 12.11.2017	0.322	2,095,500	–	2,095,500	0.03%
Ou Yaping	09.06.2004	09.06.2004 – 08.06.2014	0.315	3,196,336	–	3,196,336	0.04%
	13.11.2007	01.01.2010 – 12.11.2017	0.322	2,794,000	–	2,794,000	0.04%
	13.11.2007	01.01.2011 – 12.11.2017	0.322	2,794,000	–	2,794,000	0.04%
Tang Yui Man Francis	09.06.2004	09.06.2004 – 08.06.2014	0.315	31,963,360	–	31,963,360	0.44%
	13.11.2007	01.01.2010 – 12.11.2017	0.322	6,985,000	–	6,985,000	0.10%
	13.11.2007	01.01.2011 – 12.11.2017	0.322	6,985,000	–	6,985,000	0.10%
Xiang Ya Bo	09.06.2004	09.06.2004 – 08.06.2014	0.315	31,963,360	–	31,963,360	0.44%
	13.11.2007	01.01.2010 – 12.11.2017	0.322	6,985,000	–	6,985,000	0.10%
	13.11.2007	01.01.2011 – 12.11.2017	0.322	6,985,000	–	6,985,000	0.10%
Xin Luo Lin	09.06.2004	09.06.2004 – 08.06.2014	0.315	3,196,336	–	3,196,336	0.04%
	13.11.2007	01.01.2010 – 12.11.2017	0.322	2,095,500	–	2,095,500	0.03%
	13.11.2007	01.01.2011 – 12.11.2017	0.322	2,095,500	–	2,095,500	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 under the share option scheme.
4. During the year, share options for subscribe of 20,955,000 Shares held by the retired director of the Company, Mr. Sun Qiang Chang, were lapsed under the share option scheme.

Save as disclosed above, at no time during the year, 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 of the Company 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 exercisable period of share options would be determined by the Board of Directors at its absolute discretion and notified by the Board of Directors to each eligible employees as being the period during which the share options may be exercised, such period to expire not later than 10 years after the date of grant of the share options. The minimum period for which a share option must be held before it can be exercised, would be determined by the Board of Directors.

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 independent 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 (i) the closing price of the shares of the Company as stated on the Stock Exchange on the date of grant; (ii) 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 (iii) the nominal value of the share of the Company.

At 31 December 2010, a total of 211,050,379 Shares (representing approximately 2.935% 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 718,965,566 Shares, refreshed at the annual general meeting on 1 June 2010 (representing approximately 10% of the existing issued share capital of the Company) at that date 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$*
2004 Option	09.06.2004	09.06.2004 – 08.06.2014	0.315
	09.06.2004	09.06.2005 – 08.06.2014	0.315
	09.06.2004	09.06.2006 – 08.06.2014	0.315
	09.06.2004	09.12.2006 – 08.06.2014	0.315
2005 Option	08.12.2005	08.12.2005 – 07.12.2015	0.594
2007 Option	13.11.2007	01.01.2010 – 12.11.2017	0.322
	13.11.2007	01.01.2011 – 12.11.2017	0.322

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

	Option types	Outstanding at 1.1.2010	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2010
Category 1: Directors						
Chen Wei	2007 Option	41,910,000	–	–	–	41,910,000
Lu Yungang	2004 Option	3,196,336	–	–	–	3,196,336
	2007 Option	4,191,000	–	–	–	4,191,000
Ou Yaping	2004 Option	3,196,336	–	–	–	3,196,336
	2007 Option	5,588,000	–	–	–	5,588,000
Tang Yui Man Francis	2004 Option	31,963,360	–	–	–	31,963,360
	2007 Option	13,970,000	–	–	–	13,970,000
Xiang Ya Bo	2004 Option	31,963,360	–	–	–	31,963,360
	2007 Option	13,970,000	–	–	–	13,970,000
Xin Luo Lin	2004 Option	3,196,336	–	–	–	3,196,336
	2007 Option	4,191,000	–	–	–	4,191,000
Total for directors		157,335,728	–	–	–	157,335,728
Category 2: Employees						
	2004 Option	9,709,153	–	–	(2,095,502)	7,613,651
	2007 Option	51,689,000	–	–	(5,588,000)	46,101,000
Total for employees		61,398,153	–	–	(7,683,502)	53,714,651
Category 3: Other						
Sun Qiang Chang retired as director on 1 June 2010	2005 Option	20,955,000	–	–	(20,955,000)	–
Total for Other		20,955,000	–	–	(20,955,000)	–
All categories		239,688,881	–	–	(28,638,502)	211,050,379

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, 28,638,502 options were lapsed under the share option scheme of the Company.
4. Mr. Sun Qiang Chang retired as Non-executive Director of the Company at the annual general meeting held on 1 June 2010 and share options granted to him were lapsed on 1 July 2010.

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 annual general meeting.

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 36 to the consolidated financial statements constitute connected transactions under Chapter 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 Listing Rules 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 2010 was HK$3,378,000.

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 Auditor's Letter on Continuing Connected Transactions under the Listing Rules 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.

As the aforementioned master Agreement is expiring on 31 March 2011, the Board of Directors is considering entering into a new agreement with Sinolink in respect of the aforementioned continuing connected transactions as from 1 April 2011. If the Company enters into such new agreement, the Company will issue an announcement as and when appropriate and comply with other requirements under the Listing Rules in this respect.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

At 31 December 2010, the register of the interests and short positions 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/ Nature of interest	Aggregate interest	Approximate percentage of the issued share capital as at 31.12.2010
Asia Pacific	Beneficial owner and interest of controlled corporations/Beneficial interest and Corporate interest	2,617,180,764 (Note 1)	36.40%
Pope Asset Management, LLC	Investment Manager/ Other interest	386,697,961	5.38%
Keywise Capital Management (HK) Limited ("Keywise Capital")	Investment Manager/ Other interest	514,885,065 (Note 2)	7.16%
Keywise Greater China Opportunities Master Fund ("Keywise China")	Beneficial owner/ Beneficial interest	461,821,065 (Note 2)	6.42%

Notes:

1. 2,617,180,764 Shares represent the aggregate of (i) 2,557,105,618 Shares held by Asia Pacific directly; and (ii) 60,075,146 Shares are held by Sinolink. Mr. Ou through together with his associates hold a total of 44.28% of the existing issued share capital of Sinolink as at 31 December 2010 and is therefore deemed to be interested in all these 2,617,180,764 Shares under the SFO.
2. According to the register kept under Section 336 of the SFO. Keywise China and Keywise Capital were interested in 461,821,065 and 514,885,065 Shares respectively. Keywise Capital is an investment manager of Keywise China, Keywise Capital is deemed to be interested in 461,821,065 Shares held by Keywise China.

Save as disclosed above, as at 31 December 2010, the Company has not been notified of any other interests or short positions in the Shares and underlying Shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for about 99% of the Group's turnover. Sales to the largest customer accounted for 96% of the Group's turnover.

The five largest suppliers of the Group in aggregate accounted for about 86% of its purchases for the year. Purchases from the largest supplier accounted for about 39% 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 2010.

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 9 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 Annual 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 25 to 32 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 2010 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 pages 29 to 30.

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 2010.

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, 28 March 2011

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 2010.

BOARD OF DIRECTORS

Composition

The Board comprises 7 members (each member of the Board, a "Director"). Mr. Ou Yaping acts as the Chairman of the Board, whereas Mr. Chen Wei acts as Chief Executive Officer of the Company. Other Executive Directors are Mr. Tang Yui Man Francis and Mr. Xiang Ya Bo. 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.

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

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

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

Pursuant to the Bye-laws of the Company (the "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 filing 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 Independent Non-executive Director is for a period of 1 year, from 1 January 2011 to 31 December 2011, subject to retirement by rotation and re-election 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 considers operational reports of the Company and policies and financial results of the Company. Significant operational policies have to be discussed and passed by the Board.

During the year 2010, the Board held 4 regular Board meetings (within the meaning of the Code) at approximately quarterly interval and 14 Board meetings which were convened as necessary. Due notice and the Board papers were given to all Directors prior to each regular meeting in accordance with the Code and the Bye-laws. Details of individual attendance of Directors are set out below:–

	No. of regular Board meetings attended	**No. of other Board meetings attended**
Executive Directors		
Ou Yaping *(Chairman)*	4	10
Chen Wei *(Chief Executive Officer)*	4	1
Xiang Ya Bo	4	5
Tang Yui Man Francis	4	10
Non-executive Director		
Sun Qiang Chang *(Non-executive Vice Chairman)**	2	0
Independent Non-executive Directors		
Lu Yungang	4	3
Xiang Bing	4	3
Xin Luo Lin	4	3

* Mr. Sun Qiang Chang retired as a Non-executive Director and ceased to act as Non-executive Vice Chairman on 1 June 2010.

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 other.

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 which is posted on the website of the Company at www.enerchina.com.hk.

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 2010, the Remuneration Committee:

– reviewed the remuneration policy for 2010/2011;

– reviewed the remuneration of executive directors, non-executive director and independent non-executive directors and management year-end bonus; and

– reviewed and approved the services agreements of Executive Directors.

The Remuneration Committee held 4 meetings during 2010 with individual attendance as follows:

Members of Remuneration Committee	***No. of meetings attended***
Ou Yaping	4
Xiang Ya Bo	4
Lu Yungang	4
Xiang Bing	4
Xin Luo Lin *(Chairman of the Remuneration Committee)*	4

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.

During 2010, the Audit Committee:

– reviewed financial statements for the year ended 31 December 2009 and for the six months ended 30 June 2010;

– reviewed of the effectiveness of the internal control system;

– reviewed of the external auditor's audit findings; and

– reviewed and approved remuneration of auditor for 2010 and recommend the re-appointment of 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
Xiang Bing	3
Xin Luo Lin *(Chairman of the Audit Committee)*	3

Nomination of Directors

The Board has not established a nomination committee. According to the Bye-laws, the Board has the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. In assessing 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 2010, Mr. Sun Qiang Chang retired as a Non-executive Director at the annual general meeting held on 1 June 2010. Save as above, there was no change in the composition of the board of Directors of the Company during the year.

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 2010, all Directors have complied with the required standard set out in the Model Code.

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

EXTERNAL 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 2010. Deloitte also reviewed the 2010 unaudited interim financial report of the Company, prepared under HKFRSs.

Fees charged by Deloitte in respect of audit services for the year 2010 amounted to HK$1,300,000. Non-audit services fees charged by Deloitte were as follows:

Description of professional services rendered in connection with:–

	Fee
	HK$'000
– Reviews of the interim financial report of the Company for the six months ended 30 June 2010	330
– Other services	665
	995

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 system and consideration of adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their training programmes and budget. 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 in the announcement, annual/interim report and/or circular 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 conducting a poll are explained by the chairman of the meeting at the general meetings of the Company held during the year.

At the 2010 Annual General Meeting, a resolution was proposed by the chairman of the meeting in respect of each separate issue itemized on the agenda, including re-election of Directors. The Chairman of the Board and certain members of all Committees or their duly appointed delegates attended the 2010 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 regarding reporting responsibility for the financial statements is set out in the Independent Auditor's Report on pages 33 to 34.

Deloitte.
德勤

TO THE MEMBERS OF ENERCHINA HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Enerchina Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 105 which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair value 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 2010 and of the Group's 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
28 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
Turnover	5	**401,738**	752,297
Cost of sales		**(440,849)**	(868,459)
Gross loss		**(39,111)**	(116,162)
Other income	6	**15,485**	26,420
Selling and distribution expenses		**(2,085)**	–
Administrative expenses		**(73,730)**	(50,661)
Other expenses		**(320)**	(2,357)
Net gains on investments held for trading		**227,679**	83,481
Gain on convertible note classified as held for trading		**10,789**	–
Share of results of an associate		**58,240**	75,792
Finance costs	7	**(49,918)**	(54,268)
Loss on disposal and deemed disposal of an associate		**(847,568)**	(566)
Gain on bargain purchase of a subsidiary	30	**17,346**	–
Loss for the year	8	**(683,193)**	(38,321)
Other comprehensive income			
Share of other comprehensive income of an associate		**18,403**	1,169
Exchange differences arising on translation to presentation currency		**14,504**	775
Exchange differences realised upon deregistration of a subsidiary		**(420)**	–
Exchange reserve realised on deemed partial disposal of an associate		**–**	(41)
Other comprehensive income for the year		**32,487**	1,903
Total comprehensive expense for the year		**(650,706)**	(36,418)
Loss for the year attributable to:			
Owners of the Company		**(683,181)**	(38,279)
Non-controlling interests		**(12)**	(42)
		(683,193)	(38,321)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	NOTE	2010 HK$'000	2009 HK$'000
Total comprehensive expense attributable to:			
Owners of the Company		**(650,568)**	(36,376)
Non-controlling interests		**(138)**	(42)
		(650,706)	(36,418)
		HK Cents	HK Cents
Loss per share	12		
– basic		**(9.50)**	(0.57)
– diluted		**(9.50)**	(0.57)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	13	**1,472,350**	1,390,625
Prepaid lease payments	14	**60,583**	42,791
Goodwill	16	**–**	–
Interest in an associate	17	**–**	2,426,581
Available-for-sale investments	18	**278,000**	78,000
		1,810,933	3,937,997
Current assets			
Inventories	19	**114,258**	92,901
Prepaid lease payments	14	**1,738**	1,238
Trade and other receivables, deposits and prepayments	20	**197,429**	152,136
Investments held for trading	21	**958,350**	148,834
Pledged bank deposits	22	**55,298**	47,673
Bank balances and cash	22	**1,006,945**	192,020
		2,334,018	634,802
Current liabilities			
Trade, notes and other payables	23	**331,425**	441,418
Taxation payable		**8,922**	8,922
Borrowings – amount due within one year	24	**866,592**	466,915
		1,206,939	917,255
Net current assets (liabilities)		**1,127,079**	(282,453)
Total assets less current liabilities		**2,938,012**	3,655,544
Non-current liabilities			
Borrowings – amount due after one year	24	**74,618**	143,121
Net assets		**2,863,394**	3,512,423

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTE	2010 HK$'000	2009 HK$'000
Capital and reserves			
Share capital	25	**71,897**	71,897
Reserves		**2,791,497**	3,440,052
Equity attributable to owners of the Company		**2,863,394**	3,511,949
Non-controlling interests		**–**	474
Total equity		**2,863,394**	3,512,423

The consolidated financial statements on pages 35 to 105 were approved and authorised for issue by the Board of Directors on 28 March 2011 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 2010

	Attributable to owners of the Company										
	Share capital HK$'000	**Share premium** HK$'000	**Translation reserve** HK$'000	**Capital reserve** HK$'000	**General reserves** HK$'000 (note 27)	**Contributed surplus** HK$'000	**Share option reserve** HK$'000	**Retained earnings (accumulated losses)** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
At 1 January 2009	47,931	2,994,875	314,682	81,525	3,637	544	7,592	22,393	3,473,179	516	3,473,695
Exchange differences arising on translation to presentation currency	–	–	775	–	–	–	–	–	775	–	775
Share of other comprehensive income of an associate	–	–	1,169	–	–	–	–	–	1,169	–	1,169
Realised on deemed partial disposal of an associate	–	–	(41)	–	–	–	–	–	(41)	–	(41)
Loss for the year	–	–	–	–	–	–	–	(38,279)	(38,279)	(42)	(38,321)
Total comprehensive income (expense) for the year	–	–	1,903	–	–	–	–	(38,279)	(36,376)	(42)	(36,418)
Issue of shares	23,966	47,931	–	–	–	–	–	–	71,897	–	71,897
Issue share expenses	–	(1,385)	–	–	–	–	–	–	(1,385)	–	(1,385)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	4,634	–	4,634	–	4,634
Share options lapsed	–	–	–	–	–	–	(940)	940	–	–	–
At 31 December 2009	71,897	3,041,421	316,585	81,525	3,637	544	11,286	(14,946)	3,511,949	474	3,512,423
Exchange differences arising on translation to presentation currency	–	–	14,504	–	–	–	–	–	14,504	–	14,504
Share of other comprehensive income of an associate	–	–	18,403	–	–	–	–	–	18,403	–	18,403
Exchange differences released upon deregistration of a subsidiary	–	–	(294)	–	–	–	–	–	(294)	(126)	(420)
Loss for the year	–	–	–	–	–	–	–	(683,181)	(683,181)	(12)	(683,193)
Total comprehensive income (expense) for the year	–	–	32,613	–	–	–	–	(683,181)	(650,568)	(138)	(650,706)
Exchange reserve realised on disposal of an associate	–	–	(166,836)	–	–	–	–	166,836	–	–	–
Recognition of equity-settled share-based payments	–	–	–	–	–	–	2,013	–	2,013	–	2,013
Share options lapsed	–	–	–	–	–	–	(2,818)	2,818	–	–	–
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	(336)	(336)
At 31 December 2010	**71,897**	**3,041,421**	**182,362**	**81,525**	**3,637**	**544**	**10,481**	**(528,473)**	**2,863,394**	**–**	**2,863,394**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES		
Loss for the year	**(683,193)**	(38,321)
Adjustments for:		
Share of results of an associate	**(58,240)**	(75,792)
Depreciation of property, plant and equipment	**59,902**	85,770
Release of prepaid lease payments	**1,438**	1,238
Share-based payment expenses	**2,013**	4,634
Interest expenses	**49,918**	54,268
Interest income	**(3,509)**	(1,183)
Other interest income	**(1,858)**	(1,384)
Loss on disposal of property, plant and equipment	**265**	1,782
Net gains on investments held for trading	**(227,679)**	(83,481)
Gain on convertible note classified as held for trading	**(10,789)**	–
Dividend income	**(3,588)**	(2,901)
Discount on acquisition of a subsidiary	**(17,346)**	–
Gain on disposal of subsidiaries	**–**	(1,392)
Loss on disposal and deemed disposal of an associate	**847,568**	566
Operating cash flows before movements in working capital	**(45,098)**	(56,196)
Decrease in inventories	**23,478**	11,163
Decrease (increase) in investments held for trading	**786,346**	(14,901)
Increase in trade and other receivables, deposits and prepayments	**(20,139)**	(15,172)
(Decrease) increase in trade, notes and other payables	**(172,794)**	136,347
Cash generated from operations	**571,793**	61,241
Interest paid on banks and other borrowings	**(49,918)**	(54,268)
NET CASH FROM OPERATING ACTIVITIES	**521,875**	6,973

For the year ended 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES			
Purchase of available-for-sale investments		**(200,000)**	–
Purchase of convertible note receivable		**(10,000)**	(34,700)
Acquisition of a subsidiary	30	**(71,256)**	–
Purchase of property, plant and equipment		**(10,335)**	(5,502)
Pledged bank deposits made		**(6,482)**	(23,836)
Expense on disposal of an associate		**(4,626)**	–
Purchase of prepaid lease payments		**(353)**	–
Gross proceeds from disposal of an associate		**306,000**	–
Dividend received from an associate		**8,910**	5,305
Dividend received		**3,588**	2,901
Interest received		**3,345**	1,183
Proceeds from disposal of property, plant and equipment		**2,228**	9,535
Deregistration of a subsidiary		**1,079**	–
Disposal of a subsidiary (net of cash and cash equivalents disposed of)	31	**–**	37,476
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**22,098**	(7,638)
FINANCING ACTIVITIES			
New bank loans raised		**1,014,693**	788,876
Repayment of bank loans		**(745,645)**	(826,883)
Proceeds from issue of shares		**–**	71,897
Issue share expenses		**–**	(1,385)
NET CASH FROM FINANCING ACTIVITIES		**269,048**	32,505
NET INCREASE IN CASH AND CASH EQUIVALENTS		**813,021**	31,840
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**192,020**	160,155
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**1,904**	25
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		**1,006,945**	192,020

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 Group is principally engaged in the supply of electricity and manufacturing and sales of electrical products.

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

In the current year, the Group has applied the following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (as revised in 2008)	Business combinations
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Eligible hedged items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC*) – INT 17	Distributions of non-cash assets to owners
HK – INT 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause

* IFRIC represents the International Financial Reporting Interpretations Committee.

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and disclosures set out in these consolidated financial statements.

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

HKFRS 3 (as revised in 2008) Business combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

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

HKAS 27 (as revised in 2008) Consolidated and separate financial statements

The application of HKAS 27 (as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

In accordance with the application of HKFRS 3 (Revised) and HKAS 27 (Revised), as referred to the note 30, an amount of approximately HK$683,000 acquisition related costs are incurred and included in the administrative expenses during the year. There was no effect on the consolidated financial statements of the Group for the prior accounting period.

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

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on the information that existed at the inception of the leases. After reassessment the directors of the Company concluded that no reclassification was necessary.

Hong Kong Interpretation 5 Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause

Hong Kong Interpretation 5 "Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause" ("HK INT 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK INT 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK INT 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK INT 5, term loans with a repayment on demand clause are classified as current liabilities. After reviewing the terms the Group's term loans, the directors of the Company concluded that no reclassification was necessary.

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

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised)	Related party disclosures[6]
HKAS 32 (Amendments)	Classification of rights issues[7]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 July 2011.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 January 2011.
[7] Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 Financial instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

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

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Groups' financial assets. Apart for HKFRS 9, the directors anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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)*

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.

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 statement of comprehensive income 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i. e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units or groups of cash-generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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 profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 initially recognised in the consolidated statement of financial position at cost adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. 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. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

From 1 January 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

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

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.

Revenue from electricity supply is recognised when electricity is supplied.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

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, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment losses on tangible asset

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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 in the consolidated statement of financial position 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 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.

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 investments held for trading.

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement 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 the end of the reporting period 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 of 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 the end of the reporting period (see accounting policy on impairment of 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 the end of the reporting period. 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.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

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.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e. g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition *(Continued)*

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

Share-based payment transactions

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 financial statements until such time as the options are exercised, and no charge is recognised in profit or loss 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.

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 the end of the reporting period, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the 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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those 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 associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Leasing

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

The Group as leasee

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as leasee *(Continued)*

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. 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 exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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 end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve).

From 1 January 2010 onwards, on the disposal of a foreign operation (i. e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i. e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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 end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of long-lived assets

Property, plant and equipment and prepaid lease payments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount has been determined based on the higher of value in use calculations and fair value less costs to sell. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the property, plant and equipment and prepaid lease payments and a suitable discount rate in order to calculate the present value. In determining the value in use to estimate the future cash flows, the directors of the Company consider the government subsidies in respect of fuel cost incurred in 2010 and onwards will be granted and recognised upon receipt.

Based on such analysis, the directors of the Company consider no impairment loss is necessary for long-lived assets as at the reporting dates. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010, the carrying amount of property, plant and equipment and prepaid lease payments are approximately HK$1,472,350,000 (2009: HK$1,390,625,000) and HK$62,321,000 (2009: HK$44,029,000), respectively.

Income taxes

As at 31 December 2010, no deferred tax asset is recognised in the Group's consolidated statement of financial position in relation to the estimated unused tax losses of approximately HK$557,637,000 (2009: HK$437,987,000) 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 profit or loss for the period in which such recognition takes place.

5. TURNOVER AND SEGMENT INFORMATION

Turnover

Turnover represents revenue arising on the supply of electricity and manufacture and sales of electrical products for the year.

Segment information

The Group determines its operating segment and measurement of segment profit based on the internal reports to Chief Executive Officer, the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment. The management has identified two operating segments: supply of electricity and manufacture and sales of electrical products, which represents the major industries the Group engaged and the basis upon which the Group is organised. In 2009, the Group was primarily engaged in the supply of electricity and it was determined that the Group had only one operating segment.

Segment revenue and results

	Year ended 31 December 2010			Year ended 31 December 2009	
	Manufacturing and sales of electrical products HK$'000	**Electricity supplies HK$'000**	**Total HK$'000**	Electricity supplies HK$'000	Total HK$'000
Segment revenue from external customers	**16,259**	**385,479**	**401,738**	752,297	752,297
Segment result	**(11,800)**	**(55,333)**	**(67,133)**	(140,338)	(140,338)
Other income			**15,485**		26,420
Central administration expenses			**(48,113)**		(28,842)
Finance costs			**(49,918)**		(54,268)
Net gains on investments held for trading			**227,679**		83,481
Gain on convertible note classified as held for trading			**10,789**		–
Loss on disposal and deemed disposal of an associate			**(847,568)**		(566)
Gain on bargain purchase of a subsidiary			**17,346**		–
Share of results of an associate			**58,240**		75,792
Loss for the year			**(683,193)**		(38,321)

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

	Manufacturing and sales of electrical products HK$'000	Electricity supplies HK$'000	Unallocated HK$'000	Consolidated HK$'000
At 31 December 2010				
ASSETS				
Segment assets	174,233	1,645,830	–	1,820,063
Other unallocated assets	–	–	2,324,888	2,324,888
Consolidated total assets				4,144,951
LIABILITIES				
Segment liabilities	(60,272)	(268,195)	–	(328,467)
Unallocated liabilities	–	–	(953,090)	(953,090)
Consolidated total liabilities				(1,281,557)

	Manufacturing and sales of electrical products HK$'000	Electricity supplies HK$'000	Unallocated HK$'000	Consolidated HK$'000
OTHER SEGMENT INFORMATION				
Capital additions	842	9,493	–	10,335
Depreciation and amortisation	2,061	57,598	243	59,902
Interest expenses	1,687	48,231	–	49,918
Loss on disposal of property, plant and equipment	45	220	–	265
Release of prepaid lease payments	185	1,253	–	1,438

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

	Electricity supplies HK$'000	Unallocated HK$'000	Consolidated HK$'000
At 31 December 2009			
ASSETS			
Segment assets	1,628,662	–	1,628,662
Interest in an associate	–	2,426,581	2,426,581
Other unallocated assets			517,556
Consolidated total assets			4,572,799
LIABILITIES			
Segment liabilities	(438,838)	–	(438,838)
Unallocated liabilities			(621,538)
Consolidated total liabilities			(1,060,376)

	Electricity supplies HK$'000	Unallocated HK$'000	Consolidated HK$'000
OTHER SEGMENT INFORMATION			
Capital additions	5,502	–	5,502
Depreciation and amortisation	85,221	549	85,770
Interest expenses	54,268	–	54,268
Loss on disposal of property, plant and equipment	1,782	–	1,782
Release of prepaid lease payments	1,238	–	1,238

5. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Geographical segments

As all external turnover for both years and non-current assets less financial instruments as at the reporting dates are derived from or located in the People's Republic of China ("PRC"), an analysis of the consolidated turnover and non-current assets less financial instruments by geographical location is not presented.

Information about major customer

Revenue of HK$385,479,000 (2009: HK$752,297,000) is arising from the supply of electricity to the Group's major customer. No other customers contributed over 10% of the total sales of the Group in both years.

6. OTHER INCOME

Other income mainly comprised of:

	2010	2009
	HK$'000	HK$'000
Interest income on:		
– bank deposits	**3,509**	1,183
– others	**1,858**	1,384
Total interest income	**5,367**	2,567
Dividend income		
– listed	**1,429**	438
– unlisted	**2,159**	2,463
	3,588	2,901
Bad debts recovered (Note)	**–**	19,175
Gain on disposal of a subsidiary	**–**	1,392

Note: The amount represented the recovery of bad debts which were written off in prior years. During the year ended 31 December 2009, the Group entered into a settlement agreement with the relevant parties and a sum of HK$19,175,000 was repaid to the Group accordingly.

7. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interest on bank and other borrowings wholly repayable within five years	**49,918**	54,268

8. LOSS FOR THE YEAR

	2010 HK$'000	2009 HK$'000
Loss for the year has been arrived at after charging:		
Auditor's remuneration	**1,690**	1,585
Consumption tax on fuel oil (included in cost of sales)	**49,402**	147,753
Depreciation of property, plant and equipment	**59,902**	85,770
Loss on disposal of property, plant and equipment	**265**	1,782
Release of prepaid lease payments	**1,438**	1,238
Minimum lease payments under operating leases in respect of rented premises	**2,981**	4,473
Staff costs (including directors' remuneration):		
Retirement benefit scheme contributions	**1,041**	957
Share-based payments	**2,013**	4,634
Salaries and other benefits	**25,411**	24,205
Total staff costs	**28,465**	29,796
Share of tax of an associate (included in share of results of an associate)	**12,813**	29,037

9. DIRECTORS' AND EMPLOYEES' REMUNERATION

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

	Year ended 31 December 2010								
	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$'000	Dr. Xiang Bing HK$'000	Total HK$'000
Fees	–	–	–	–	–	250	250	250	750
Other emoluments									
– salaries and other benefits	–	390	2,002	1,800	1,736	–	–	–	5,928
– contributions to retirement benefit schemes	–	12	150	12	30	–	–	–	204
– performance and discretionary bonus (Note)	–	–	1,000	500	–	–	–	–	1,500
– share-based payments	–	127	316	316	949	95	95	–	1,898
Total emoluments	–	529	3,468	2,628	2,715	345	345	250	10,280

	Year ended 31 December 2009								
	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$'000	Dr. Xiang Bing HK$'000	Total HK$'000
Fees	–	–	–	–	–	250	250	250	750
Other emoluments									
– salaries and other benefits	–	390	2,002	1,800	2,161	–	–	–	6,353
– contributions to retirement benefit schemes	–	12	105	12	30	–	–	–	159
– performance and discretionary bonus (Note)	–	–	100	50	200	–	–	–	350
– share-based payments	–	195	487	487	1,461	146	146	–	2,922
Total emoluments	–	597	2,694	2,349	3,852	396	396	250	10,534

Notes:

(a) The annual salary and year-end discretionary bonus of executive directors 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.

(b) The director's fee of Independent non-executive directors is determined by the Board and the remuneration committee of the Company with reference to their 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.

(c) The emoluments of the directors are covered by their respective service contracts and or supplemental agreements or letters of appointment entered into with the Company.

The five highest paid individuals of the Group included three directors (2009: three directors) of the Company. Details of their emoluments are included above.

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

The emoluments of the remaining two (2009: two) highest paid individuals for the year are set out as follows:

	2010 **HK$'000**	2009 HK$'000
Employees		
Salaries and other benefits	**1,903**	1,788
Contributions to retirement benefit scheme contributions	**41**	39
	1,944	1,827

Their emoluments are within the following band:

	2010 **Number of employees**	2009 Number of employee
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
	2	2

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.

10. TAXATION

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of most PRC subsidiaries, except for those described below, is 22% (2009: 20%) for the year ended 31 December 2010.

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 these subsidiaries in 2010 was 11%. These tax incentives have expired by the year 2010. In addition, the subsidiaries are entitled to a tax benefit ("Tax Benefit"), which is calculated as 40% of the current year's purchase of PRC produced plant and equipment for production use. The portion of the Tax Benefit that is not utilised in the current year can be carried forward for future application for a period of not more than seven years.

No PRC Enterprise Income Tax has been provided for both years after taking these tax incentives into account.

Deferred tax asset has not been recognised in the consolidated financial statements in respect of the estimated tax losses of approximately HK$557,637,000 (2009: HK$437,987,000) available to offset the future assessable profit due to the unpredictability of future profits streams. Included in unrecognised tax losses are losses of HK$423,227,000 that will expire by 2015 (2009: HK$321,999,000 that will expire by 2014). Other losses may be carried forward indefinitely.

No deferred tax asset has been recognised in respect of the tax loss due to unpredictability of future profit streams.

10. TAXATION *(Continued)*

Taxation for the year can be reconciled to the loss for the year per consolidated statement of comprehensive income as follows:

	2010 **HK$'000**	2009 HK$'000
Loss for the year	**(683,193)**	(38,321)
Tax credit at applicable income tax rate of 22% (2009: 20%) (Note)	**(150,302)**	(7,664)
Tax effect of expenses not deductible for tax purpose	**197,600**	1,918
Tax effect of income not taxable for tax purpose	**(57,581)**	(18,067)
Tax effect of share of results of associates	**(12,813)**	(15,158)
Tax effect of tax losses not recognised	**20,071**	49,429
Effect of tax concessions granted to PRC subsidiaries	**(671)**	(10,507)
Effect of different tax rates of subsidiaries operating in different jurisdictions	**3,696**	49
Taxation for the year	**–**	–

Note: The tax rate of 22% (2009: 20%) represents PRC Enterprises Income Tax which is applicable to most of the Group's operations in the PRC during the year.

11. DIVIDENDS

No dividend was paid or proposed during the year, nor has any dividend been proposed since the end of the reporting period (2009: nil).

12. LOSS PER SHARE

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

	2010 HK$'000	2009 HK$'000
Loss for the purposes of basic and diluted loss for the year attributable to owners of the Company	**(683,181)**	(38,279)

	2010	2009
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**7,189,655,664**	6,723,214,442

In August 2009, the Company announced an open offer ("Open Offer") of 2,396,551,888 Open Offer shares in the proportion of one Open Offer share for every two existing shares at HK$0.03. The number of shares for the purpose of calculating basic loss per share for the year ended 31 December 2009 had been adjusted to reflect the Open Offer of shares.

The computation of diluted loss per share has not assumed the exercise of the Company's options as the exercise price was higher than the average market price of shares for both years.

13. 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	Total HK$'000
COST							
At 1 January 2009	104,541	648	5,979	1,831,448	6,695	29,756	1,979,067
Currency realignment	199	–	6	2,063	6	34	2,308
Additions	–	–	34	4,051	–	1,417	5,502
Disposals	–	–	(332)	(109,689)	(191)	–	(110,212)
At 31 December 2009	104,740	648	5,687	1,727,873	6,510	31,207	1,876,665
Currency realignment	5,491	–	163	60,423	146	1,100	67,323
Acquired on acquisition of a subsidiary	28,318	–	2,043	20,593	335	35,180	86,469
Additions	–	–	260	9,061	–	1,014	10,335
Transfers	–	–	–	954	–	(954)	–
Disposals	–	–	(129)	(16,882)	(2,345)	–	(19,356)
At 31 December 2010	**138,549**	**648**	**8,024**	**1,802,022**	**4,646**	**67,547**	**2,021,436**
DEPRECIATION							
At 1 January 2009	31,475	648	3,014	458,715	4,684	–	498,536
Currency realignment	45	–	3	576	5	–	629
Provided for the year	7,392	–	714	76,936	728	–	85,770
Eliminated on disposals	–	–	(298)	(98,425)	(172)	–	(98,895)
At 31 December 2009	38,912	648	3,433	437,802	5,245	–	486,040
Currency realignment	1,841	–	84	17,975	107	–	20,007
Provided for the year	8,073	–	685	50,550	594	–	59,902
Eliminated on disposals	–	–	(90)	(14,596)	(2,177)	–	(16,863)
At 31 December 2010	**48,826**	**648**	**4,112**	**491,731**	**3,769**	**-**	**549,086**
CARRYING VALUES							
At 31 December 2010	**89,723**	**-**	**3,912**	**1,310,291**	**877**	**67,547**	**1,472,350**
At 31 December 2009	65,828	–	2,254	1,290,071	1,265	31,207	1,390,625

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

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

Buildings	Over the lease term of the land on which buildings are located 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%

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

14. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2010 **HK$'000**	2009 HK$'000
Leasehold land outside Hong Kong with medium-term leases	**62,321**	44,029
Analysed for reporting purposes:		
Non-current portion	**60,583**	42,791
Current portion	**1,738**	1,238
	62,321	44,029

15. CONVERTIBLE NOTE RECEIVABLE

During the year ended 31 December 2010, an unlisted convertible note with principal amount of HK$10,000,000 was issued at par by a company listed on the Stock Exchange (the "CN Issuer", unrelated to the Group).

The convertible note bears interest at a contractual interest rate of 3% per annum and is due for redemption on the second anniversary from the date of issue of the convertible note ("Maturity Date"). The Group can convert the outstanding principal amount of the convertible note in whole or in part into ordinary shares of the CN Issuer at any time from the date of issue until a date which is seven days prior to the Maturity Date. The conversion price is HK$0.38 per conversion share, subject to adjustments. The conversion shares to be issued upon the exercise of the conversion rights attaching to the convertible note will rank pari passu in all respects with all other shares in issue on the conversion date. The CN Issuer shall redeem the convertible note at 100% of the principal amount outstanding on the Maturity Date and may at any time elect to repurchase in whole or in part at a price to be agreed between the CN Issuer and the Group. The Group has converted the convertible note into shares of the CN Issuer and disposed of them during the year.

Unlisted convertible note with principal amount of HK$34,700,000 was issued on 4 June 2009 by an independent third party, Top Diligent Limited ("Top Diligent"), a private company which is incorporated in the British Virgin Islands whose subsidiaries are principally engaged in the sale of liquefied petroleum gas in bulk and in cylinders. The convertible note bears interest at a contractual interest rate of 8% per annum and is due for redemption on 4 June 2012 ("Maturity Date"). Top Diligent is entitled, by giving not less than 10 business days notice to the Group, to redeem up to HK$20,000,000 on or prior to the first anniversary date of the date of issue. The Group is entitled at any time after the date of issue up to the Maturity Date to convert the convertible note into ordinary shares of Top Diligent, the conversion price of which is to be determined based on the then consolidated net asset value of Top Diligent, subject to adjustment if early redemption right was exercised.

At the issue date, the convertible note comprised of a liability component and embedded derivatives being the conversion option and the issuer's redemption option. In the opinion of the directors of the Company, the fair value of the convertible note on initial recognition substantially the same as the cost.

During the year ended 31 December 2009, the Group disposed of its entire interest in a group entity holding such convertible note receivable to a director who is also the substantial shareholder of the Company (see note 31) and a gain on disposal of approximately HK$1,392,000 was recognised in the consolidated statement of comprehensive income.

16. GOODWILL

	HK$'000
COST	
At 1 January 2009, 31 December 2009 and 1 January 2010	322,985
Released upon deregistration of a subsidiary	(6,405)
At 31 December 2010	**316,580**
IMPAIRMENT	
At 1 January 2009	(6,405)
Impairment loss recognised in profit or loss	(316,580)
At 31 December 2009	(322,985)
Eliminated upon deregistration of a subsidiary	6,405
At 31 December 2010	**(316,580)**
CARRYING VALUES	
At 31 December 2010	**–**
At 31 December 2009	–

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:

	2010 **HK$'000**	2009 HK$'000
Electricity supplies	**316,580**	316,580
Others	**–**	6,405
	316,580	322,985
Impairment loss recognised		
– electricity supplies	**(316,580)**	(316,580)
– others	**–**	(6,405)
	–	–

16. GOODWILL *(Continued)*

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 were determined based on value in use calculations. The key assumptions for the value in use calculations were those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during that year. Management estimated 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 were based on industry growth forecasts. Changes in selling prices and direct costs were based on past practices and expectations of future changes in the market.

17. INTEREST IN AN ASSOCIATE

	2010	2009
	HK$'000	HK$'000
Cost of investment in an associate listed in Hong Kong	**–**	2,091,883
Share of post-acquisition results and other comprehensive income	**–**	334,698
	–	2,426,581
Fair value of listed investments	**–**	1,660,425

In April 2010, the Group entered into a placing agreement with a placing agent to dispose of 85,000,000 shares in Towngas China Company Limited ("Towngas China") at a price of HK$3.60 per share. In addition, Towngas China entered into an agreement in March 2010 with Hong Kong & China Gas Limited's subsidiary (the "Vendor") to acquire six piped city-gas projects in the Liaoning and Zhejiang provinces (the "Acquisition") with the consideration settled by Towngas China's allotment and issue of consideration shares to the Vendor. The Acquisition was completed on 15 July 2010.

The Group's interest in Towngas China was decreased from 27.09% as at 31 December 2009 to 18.19% as at 15 July 2010. As a result, the Group has lost significant influence in Towngas China and the investment of approximately HK$1,345,372,000 has been classified as investments held for trading. A loss on disposal and deemed disposal of Towngas China of HK$847,568,000 resulted from the disposal.

17. INTEREST IN AN ASSOCIATE *(Continued)*

Details of the Group's associate as at 31 December 2009 are as follows:

Name of associate	Place of incorporation/ establishment and form of business structure	Principal place of operation	Percentage of equity interest attributable to the Group	Principal activities
Towngas China	Cayman Islands – limited liability company	PRC	27.09%	Sale and distribution of liquefied petroleum gas and natural gas and related services and gas pipeline construction

In 2009, included in the cost of investment of an associate was goodwill of HK$707,245,000 arising on acquisitions of an associate. Details of movements of goodwill are as follows:

	2010 **HK$'000**	2009 HK$'000
COST		
At 1 January	**707,245**	707,482
Released upon disposal and deemed disposal of an associate	**(707,245)**	(237)
At 31 December	**–**	707,245

17. INTEREST IN AN ASSOCIATE *(Continued)*

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

	2009
	HK$'000
Total assets	11,330,417
Total liabilities	(4,979,047)
Net assets	6,351,370
Group's share of net assets of an associate	1,720,586
Revenue	2,905,953
Profit for the year	312,143
Group's share of other comprehensive income	1,128
Group's share of profit and other comprehensive income of an associate	75,792

18. AVAILABLE-FOR-SALE INVESTMENTS

	2010	2009
	HK$'000	HK$'000
Unlisted shares in overseas, at cost	**278,000**	78,000

Investments in unlisted equity securities issued by private entities incorporated overseas are held for an identified long term strategic purpose and are measured at cost less impairment at the end of the reporting period 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.

During the year ended 31 December 2010, the Group entered into a subscription agreement with an unlisted private entity incorporated overseas to subscribe for its equity interest at a consideration of HK$200,000,000. The unlisted private entity is principally engaged in security brokerage, money lending and corporate finance advisory as well as proprietary trading and direct investment.

19. INVENTORIES

	2010 HK$'000	2009 HK$'000
Raw materials	**80,572**	92,901
Work in progress	**20,200**	–
Finished goods	**13,486**	–
	114,258	92,901

20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2010 HK$'000	2009 HK$'000
Trade receivables	**105,079**	65,947
Other receivables, deposits and prepayments	**92,350**	86,189
	197,429	152,136

The Group allows an average credit period ranging from 0 to 90 days to its trade customers. The following is an aged analysis of trade receivables, presented based on the invoice date of the end of the reporting period:

	2010 HK$'000	2009 HK$'000
Within 90 days	**96,282**	65,947
91 – 180 days	**3,236**	–
181 – 360 days	**118**	–
Over 360 days	**5,443**	–
	105,079	65,947

Included in the Group's trade debtors are debtors with aggregate carrying amount of HK$8,797,000 (2009: nil) which are past due as at the reporting date for which the Group has not provided for impairment loss. The directors of the Company determined that these receivables are either due from customers of good credit quality with no history of default or covered by credit insurance. The Group holds an amount of HK$11,751,000 over these balances.

20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

The aged analysis of trade debtors which are past due but not impaired is as follows:

	2010	2009
	HK$'000	HK$'000
91 – 180 days	**3,236**	–
181 – 360 days	**118**	–
Over 360 days	**5,443**	–
	8,797	–

Included in trade debtors are debts discounted with recourse amounting to HK$5,252,000 (2009: nil). The Group will need to repay the financial institutions if there are credit losses on the receivables before the end of discounting period, accordingly, the Group continues to recognise the full carrying amount of those debtors and has recognised the cash received as a secured borrowing (see note 24).

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

21. INVESTMENTS HELD FOR TRADING

	2010	2009
	HK$'000	HK$'000
Investments held for trading, at fair value		
Listed shares in Hong Kong	**955,394**	140,300
Listed shares in elsewhere	**573**	1,187
Unlisted managed investment funds	**2,383**	7,347
	958,350	148,834

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

21. INVESTMENTS HELD FOR TRADING *(Continued)*

Included in the listed shares in Hong Kong is an amount of HK$729,167,000 equity interest in Towngas China. The Group's interest in Towngas China is 7.98% as of 31 December 2010.

With respect to the unlisted managed investment fund, the fair value is measured by reference to the price quoted from a financial institution, the administrator of the investment fund, which is determined by the underlying net asset value held by the unlisted private investment fund.

22. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The Group's deposits amounting to HK$55,298,000 (2009: HK$47,673,000) have been pledged to secure bank loans due within one year and short-term general facilities of the Group and are therefore classified as current assets. The deposits carry interest at prevailing market rate at 0.30% (2009: 0.36%) per annum.

Bank balances carry interest at prevailing market rate ranging from 0.01% to 0.36% (2009: 0.01% to 0.36%) per annum.

23. TRADE, NOTES AND OTHER PAYABLES

	2010 **HK$'000**	2009 HK$'000
Trade payables	**110,312**	392,812
Advances received (Note)	**146,228**	–
Other payables and accrued charges	**74,885**	48,606
	331,425	441,418

Note: Included in the other payables is an amount of HK$146,228,000 advance from an independent third party unrelated to the Group (the "Entity"). Pursuant to the agreement which the Group entered into with the Entity during the year, the Entity agreed to advance an amount of not exceeding RMB200 million to the Group for the trading of fuel consumables and resell to the enterprises in the PRC. The Group will identify trading opportunity and share the profit or loss based on mutually agreed terms. During the year, an amount of RMB124 million (approximately HK$146,228,000) was advanced to the Group. At the end of the reporting period, the Group has not identified any trading opportunity and the whole amount of advance is classified as other payables. Subsequently to the end of the reporting period, an amount of approximately HK$57,600,000 was repaid by the Group.

23. TRADE, NOTES AND OTHER PAYABLES *(Continued)*

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2010 HK$'000	2009 HK$'000
Within 90 days	**99,884**	387,949
91 – 180 days	**5,828**	3,723
181 – 360 days	**836**	–
Over 360 days	**3,764**	1,140
	110,312	392,812

24. BORROWINGS

	2010 HK$'000	2009 HK$'000
Borrowings comprise the following:		
Bank loans – secured	**418,438**	439,775
Bank loans – unsecured	**522,772**	170,261
	941,210	610,036
The maturity of the above borrowings is as follows:		
On demand or within one year	**866,592**	466,915
More than one year but not more than two years	**74,618**	71,044
More than two years but not more than three years	**–**	72,077
	941,210	610,036
Less: Amount due within one year shown under current liabilities	**(866,592)**	(466,915)
Amount due after one year	**74,618**	143,121

24. BORROWINGS *(Continued)*

The bank loans mainly comprise of:

	Maturity date	Effective interest rate	Carrying amount 2010 HK$'000	2009 HK$'000
Floating rate bank borrowings:				
Unsecured RMB bank loan of RMB299,000,000 (2009: RMB80,000,000) at basic borrowing rate announced by People's Bank of China	7 December 2011, 12 June 2011, 12 May 2011 27 January 2011 and 13 March 2011	4.86% to 5.83%	**351,351**	90,806
Secured RMB bank loans of RMB256,091,000 (2009: RMB258,770,000) at basic borrowing rate announced by People's Bank of China	8 March 2011, 24 February 2011, 20 May 2011 and 12 March 2012	4.43% to 6.24%	**300,929**	293,724
Secured USD bank loans of USD4,199,000 at London Interbank Offered Rate ("LIBOR")	N/A	3.30% to 6.28%	**–**	32,544
Fixed rate bank borrowings:				
Unsecured RMB bank loan of RMB141,410,000 (2009: RMB70,000,000)	25 November 2011, 29 June 2011 and 24 February 2011	5.40%	**166,169**	79,455
Other secured RMB bank loan of RMB100,000,000	13 March 2011 and 29 June 2011	5.1% to 5.4%	**117,509**	113,507
Loans related to bills discounted with recourse	26 November 2011, 26 February 2011, 20 March 2011 and 29 April 2011	3.3% to 4.54%	**5,252**	–
Total bank loans			**941,210**	610,036

The floating rate bank loans carry interest at 6 month LIBOR plus certain spread or 6-month PRC bank interest rate plus certain spread.

24. BORROWINGS *(Continued)*

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

At 31 December 2010, property, plant and equipment with an aggregate carrying amount of HK$759,062,000 (2009: HK$811,008,000), prepaid lease payments of HK$18,022,000 (2009: nil) bank deposits of HK$55,298,000 (2009: HK$47,673,000) and inventories of HK$74,335,000 (2009: HK$92,901,000), were pledged to banks for the secured bank loans and other general banking facilities granted to the Group.

25. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2009, 31 December 2009 and 31 December 2010	7,500,000,000	75,000
Issued and fully paid:		
At 1 January 2009	4,793,103,776	47,931
Issue of shares on open offer (Note)	2,396,551,888	23,966
At 31 December 2009 and 31 December 2010	7,189,655,664	71,897

Note: In August 2009, the Company allotted and issued 2,396,551,888 ordinary shares of HK$0.01 each at a price of HK$0.03 per offer share ("Offer Share") as a result of an open offer on the basis of one Offer Share for every two existing shares held by the qualifying shareholders of the Company. All the shares which were issued during the year rank pari passu with the then existing shares in all aspects.

26. 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 2010 and 2009:

	Number of the share options						
Option scheme	**Outstanding at 1.1.2010**	**Granted during the year**	**Exercised during the year**	**Adjustment during the year**	**Forfeited during the year**	**Outstanding at 31.12.2010**	**Exercisable at the end of the year**
2002 Scheme	**239,688,881**	**–**	**–**	**–**	**(28,638,502)**	**211,050,379**	**146,089,879**
Weighted average exercise price	**HK$0.34**	**N/A**	**N/A**	**N/A**	**HK$0.73**	**HK$0.32**	**HK$0.32**

	Number of the share options						
Option scheme	Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Adjustment during the year	Forfeited during the year	Outstanding at 31.12.2009	Exercisable at the end of the year
2002 Scheme	179,862,008	–	–	69,305,873	(9,479,000)	239,688,881	104,179,881
Weighted average exercise price	HK$0.48	N/A	N/A	HK$0.34	HK$0.41	HK$0.34	HK$0.37

Had all the outstanding vested share options been fully exercised on 31 December 2010, the Company would have received cash proceeds of HK$46,748,000 (2009: HK$38,663,000).

26. SHARE OPTION SCHEMES *(Continued)*

Details of specific categories of options are as follows:

Option scheme	Date of grant	Vesting proportion	Exercisable period	Adjusted exercise price
				HK$
2002 Scheme	9.6.2004	64%	9.6.2004 – 8.6.2014	0.315
	9.6.2004	14%	9.6.2005 – 8.6.2014	0.315
	9.6.2004	11%	9.6.2006 – 8.6.2014	0.315
	9.6.2004	11%	9.12.2006 – 8.6.2014	0.315
	8.12.2005	100%	8.12.2005 – 7.12.2015	0.594
	13.11.2007	100%	1.1.2010 – 12.11.2017	0.322
	13.11.2007	100%	1.1.2011 – 12.11.2017	0.322
	13.11.2007	90%*	1.1.2010 – 12.11.2017	0.322
	13.11.2007	90%*	1.1.2011 – 12.11.2017	0.322

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

27. 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.

28. 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 24 (net of cash and cash equivalents) and equity attributable to owners of the Company, comprising issued share capital and reserves.

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.

29. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010 HK$'000	2009 HK$'000
Financial assets		
FVTPL		
Held for trading	**958,350**	148,834
Loans and receivables (including cash and cash equivalents)	**1,204,033**	330,120
Available-for-sale investments	**278,000**	78,000
Financial liabilities		
Amortised cost	**1,234,561**	1,044,935

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 end of the reporting period, 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	
	2010 HK$'000	2009 HK$'000	2010 HK$'000	2009 HK$'000
United States Dollar ("USD")	**1,003**	9,108	**–**	(32,544)

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.

29. 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% (2009: 10%) 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 the end of the reporting period for a 10% (2009: 10%) 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 2010 and 2009 where RMB strengthen 10% (2009: 10%) against USD. For a 10% (2009: 10%) 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.

	2010 **HK$'000**	2009 HK$'000
(Increase) decrease in loss for the year	**(91)**	2,109

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.

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 24) and variable-rate bank deposits. 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 RMB borrowings.

29. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. For variable-rate bank borrowings and bank deposits, the analysis is prepared assuming the amount of liability and bank deposits outstanding at the end of the reporting period was outstanding for the whole year. A 70 basis point (2009: 70 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 70 basis points (2009: 70 basis points) higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2010 would decrease/increase by approximately HK$2,664,000 (2009: increase/decrease by HK$109,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and bank balances.

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.

Sensitivity analysis

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

If the prices of the respective equity instruments had been 15% (2009: 15%) higher/lower, loss for the year ended 31 December 2010 decrease/increase by HK$143,752,000 (2009: HK$22,325,000) as a result of the changes in fair value of investments held for trading.

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.

29. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

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 statement of financial position. 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 and other receivables at the end of the reporting period 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 electricity supply to government department in Shenzhen, PRC, the major customer of the Group, which the management does not expect material credit risk from the balance due.

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 borrowings as a significant source of liquidity.

29. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk ***(Continued)***

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. 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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity and interest risk tables

	Weighted average effective interest rate %	On demand or 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$'000	Carrying amount at 31.12.2010 HK$'000
2010							
Non-derivative financial liabilities							
Trade payables	–	65,445	38,067	6,800	–	110,312	110,312
Other payables	–	180,666	–	2,373	–	183,039	183,039
Bank loans							
– variable rate	4.39	–	170,333	422,249	79,476	672,058	652,280
– fixed rate	5.4 and 4.43	–	111,011	184,664	–	295,675	288,930
		246,111	319,411	616,086	79,476	1,261,084	1,234,561

	Weighted average effective interest rate %	On demand or 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$'000	Carrying amount at 31.12.2009 HK$'000
2009							
Non-derivative financial liabilities							
Trade payables	–	324,884	63,065	4,863	–	392,812	392,812
Other payables	–	39,603	111	2,373	–	42,087	42,087
Bank loans							
– variable rate	5.06	–	153,145	136,213	152,180	441,538	417,074
– fixed rate	5.4 and 4.43	–	5,751	191,288	–	197,039	192,962
		364,487	222,072	334,737	152,180	1,073,476	1,044,935

29. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk ***(Continued)***

Liquidity and interest risk tables (Continued)

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

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 is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The 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.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

29. FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurements recognised in the statement of financial position *(Continued)*

2010

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets at FVTPL				
Non-derivative financial assets held for trading				
– listed equity securities	**955,967**	**–**	**–**	**955,967**
– unlisted managed investment funds	**–**	**–**	**2,383**	**2,383**
Total	**955,967**	**–**	**2,383**	**958,350**

2009

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets at FVTPL				
Non-derivative financial assets held for trading				
– listed equity securities	141,487	–	–	141,487
– unlisted managed investment funds	–	–	7,347	7,347
Total	141,487	–	7,347	148,834

There were no transfers between Level 1 and 2 in the current year.

29. FINANCIAL INSTRUMENTS *(Continued)*

Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted managed investment funds HK$'000
At 1 January 2009	11,555
Settlements	(4,208)
At 31 December 2009	7,347
Settlements	(4,964)
At 31 December 2010	**2,383**

30. ACQUISITION OF A SUBSIDIARY

On 28 July 2010, the Group acquired 100% of the issued share capital of Deluxe International Investment Limited ("Deluxe") for consideration of approximately HK$104,935,000, which includes an amount of HK$18,762,000 for settlement of the convertible bonds issued by Deluxe. This acquisition has been accounted for using the purchase method. The amount of gain on bargain purchase arising as a result of the acquisition was HK$17,346,000. Deluxe is engaged in the manufacture and sales of electrical products. Deluxe was acquired so as to broaden the Group's market share in the local and international markets in the energy and power industry and contributed to the Group's development.

Consideration transferred

	HK$'000
Cash and total consideration	104,935

30. ACQUISITION OF A SUBSIDIARY *(Continued)*

Assets acquired and liabilities recognised at the date of acquisition are as follow

	HK$'000
Property, plant and equipment	86,469
Prepaid lease payments	17,859
Inventories	42,062
Trade and other receivables	23,376
Bank balances and cash	33,679
Trade, notes and other payable	(51,787)
Borrowings	(29,377)
	122,281

The fair value of trade and other receivables at the date of acquisition amounted to HK$23,376,000. The gross contractual amounts of those trade and other receivables acquired amounted to HK$34,269,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK$10,893,000.

Gain on bargain purchase arising on acquisition

	HK$'000
Consideration transferred	104,935
Less: Net assets acquired	(122,281)
Gain on bargain purchase	17,346

The directors are of the opinion that the gain on bargain purchase is mainly attributable to the immediate exit opportunity offered to the seller to withdraw from the investment within a relatively short period of time.

30. ACQUISITION OF A SUBSIDIARY *(Continued)*

Net cash outflow on acquisition of Deluxe

	HK$'000
Cash and total consideration paid	104,935
Less: Cash and cash equivalent balances acquired	(33,679)
	71,256

Included in the loss for the year is loss of HK$12,943,000 attributable to the additional business generated by Deluxe. Turnover for the year includes HK$16,259,000 generated from Deluxe.

If the acquisition had been completed on 1 January 2010, total Group revenue for the year would have been HK$419 million, and loss for the year attributable to owners of the Company would have been HK$711 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Deluxe been acquired at the beginning of the current year, the directors have:

- calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

31. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2009, the Group disposed of its entire equity interest in a subsidiary whose principal asset is a convertible note receivable to a director who is also the substantial shareholder of the Company. The net assets of that subsidiary at the date of disposal were as follows:

Consideration received

	HK$'000
Cash and total consideration received	37,476

Asset disposed and liabilities recognised at the date of disposal are as follows:

	HK$'000
Convertible note received	34,700
Other receivable, deposits and prepayments	1,384
Net assets disposed of	36,084

Gain on disposal of a subsidiary

	HK$'000
Consideration received	37,476
Less: Net assets disposed of	(36,084)
Gain on disposal	1,392

32. OPERATING LEASE ARRANGEMENT

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

	2010 HK$'000	2009 HK$'000
Within one year	2,304	4,056
In the second to fifth year inclusive	5,110	5,179
Over five years	16,683	16,048
	24,097	25,283

Leases are negotiated for terms up to 20 years (2009: 20 years).

33. GOVERNMENT SUBSIDIES

During the year, government subsidies of HK$121,805,000 (2009: HK$114,380,305) were granted by the Treasury of Shenzhen Trade and Industrial Council in compensation for the high fuel cost, which was to ensure the Group's power plant could maintain its profitability in times of rising crude oil cost. The government subsidies were recognised in consolidated statement of comprehensive income and were deducted from the related cost of sales for financial reporting purpose. There were no other specific conditions attached to the subsidies and, therefore, the Group recognised the subsidies upon receipt in that year.

34. CAPITAL COMMITMENTS

	2010 HK$'000	2009 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	14,126	4,895

35. 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 statement of comprehensive income 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 2010, the total expenses recognised in the consolidated statement of comprehensive income are HK$343,000 (2009: HK$256,000).

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 2010, the total expense recognised in the consolidated statement of comprehensive income are HK$698,000 (2009: HK$701,000).

36. RELATED PARTY TRANSACTIONS

During the year, the Group paid office expenses of HK$3,378,000 (2009: HK$3,378,000) to Sinolink Worldwide Holdings Limited ("Sinolink"). Sinolink is a shareholder of the Company and Mr. Ou Yaping, its director and a substantial shareholder, is also a director and a substantial shareholder of the Company. 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 9.

37. EVENT AFTER THE REPORTING PERIOD

On 19 December 2010, Goodunited Holdings Limited ("Goodunited") and Sinolink Electric Power Company Limited ("Sinolink Electric"), wholly owned subsidiaries of the Company, entered into a sale and purchase agreement (the "Agreement") with 中海石油氣電集團有限責任公司 (CNOOC Gas & Power Group) ("CNOOC Gas & Power"). Pursuant to the Agreement, CNOOC Gas & Power has conditionally agreed to purchase from Goodunited and Sinolink Electric the entire issued share capital of 深圳福華德電力有限公司 (Shenzhen Fuhuade Electric Power Co., Ltd.) ("Shenzhen Fuhuade"), a wholly owned subsidiary of the Company, which was engaging in electricity supply in the PRC. Upon the completion of the above transaction, Shenzhen Fuhuade will cease to be a subsidiary of the Company.

Details of the transactions are set out in the circular of the Company dated 17 January 2011. The above transaction was approved by the shareholders of the Company pursuant to the ordinary resolution unanimously passed at the special general meeting of the Company held on 8 February 2011.

The Group is in the process of finalising the relevant financial information of the transaction, and accordingly, the financial impact of the above transactions to the Group is not disclosed.

On 25 January 2011, Ideal Principles Limited ("Ideal Principles"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the "Cordoba Agreement") with Cordoba Homes Limited ("Cordoba"), a company incorporated in the British Virgin Islands. Pursuant to the Cordoba Agreement, Cordoba agreed to issue and Ideal Principles agreed to subscribe for shares at a subscription price of HK$300,000,000. The principal activities of Cordoba is the holding of investment properties and other equity investments.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2010 and 2009 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
			2010		2009		
			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咨詢有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	–	–	–	70	Management services and technical consultancy
Deluxe International Investment Limited	Hong Kong – Limited liability company	HK$8,000,000	–	100	–	–	Investment holding
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
Henan ADD Electric Equipment Co., Ltd. 河南愛迪德電力設備有限公司	PRC – Foreign capital enterprise	HK$95,000,000	–	100	–	–	Manufacturing and sales of electrical products
Kenson Investment Limited	BVI – Limited liability company	US$1	100	–	100	–	Investment holding
Million Profits Investments Limited	BVI – Limited liability company	US$1	–	100	–	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
			2010		2009		
			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	RMB224,500,000	–	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$2	100	–	100	–	Investment holding
威華達信息管理（深圳）有限公司	PRC – Limited liability company	RMB10,000,000	100	–	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.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	3,804,168	1,735,303	1,016,532	752,297	**401,738**
Loss before taxation	(149,566)	(10,731)	(394,564)	(38,321)	**(683,193)**
Taxation	(17,879)	(462)	–	–	**–**
Loss for the year	(167,445)	(11,193)	(394,564)	(38,321)	**(683,193)**
Attributable to:					
Owners of the Company	(79,621)	(2,425)	(394,497)	(38,279)	**(683,181)**
Non-controlling interests	(87,824)	(8,768)	(67)	(42)	**(12)**
Loss for the year	(167,445)	(11,193)	(394,564)	(38,321)	**(683,193)**

ASSETS AND LIABILITIES

	As at 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	8,803,137	5,001,294	4,434,454	4,572,799	**4,144,951**
Total liabilities	(4,000,167)	(1,257,277)	(960,759)	(1,060,376)	**(1,281,557)**
	4,802,970	3,744,017	3,473,695	3,512,423	**2,863,394**
Equity attributable to owners of the Company	3,688,763	3,743,467	3,473,179	3,511,949	**2,863,394**
Equity component of share option reserve of a listed subsidiary	14,002	–	–	–	**–**
Non-controlling interests	1,100,205	550	516	474	**–**
	4,802,970	3,744,017	3,473,695	3,512,423	**2,863,394**