Enerchina Holdings Limited
威華達控股有限公司

(Incorporated in the Bermuda with limited liability)

(Stock Code: 622)

Annual Report 2012

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Chen Wei *(Chairman)*
Sam Nickolas David Hing Cheong
(Chief Executive Officer)
Tang Yui Man Francis
Xiang Ya Bo

Independent Non-executive Directors

Lam Ping Cheung
Xiang Bing
Xin Luo Lin

AUTHORISED REPRESENTATIVES

Tang Yui Man Francis
Xiang Ya Bo

AUDIT COMMITTEE

Lam Ping Cheung
Xiang Bing
Xin Luo Lin *(Chairman)*

NOMINATION COMMITTEE

Lam Ping Cheung *(Chairman)*
Sam Nickolas David Hing Cheong
Xiang Bing
Xin Luo Lin

REMUNERATION COMMITTEE

Chen Wei
Lam Ping Cheung
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
26 Burnaby Street
Hamilton HM 11
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)
Cleary Gottlieb Steen & Hamilton (Hong Kong)
Deacons
Ashurst Hong Kong
Norton Rose
Woo, Kwan, Lee & Lo

(As to Bermuda law)
Conyers Dill & Pearman

PRINCIPAL BANKERS

Bank of China
Bank of China (Hong Kong) Limited
China CITIC Bank Corporation Limited
Hang Seng Bank Limited
UBS AG

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CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Enerchina Holdings Limited ("Enerchina" or the "Company"), I present the results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2012, turnover of the Group's continuing operation amounted to approximately HK$40.4 million, a decrease of 15.4% compared to last year. A gross loss of approximately HK$16.8 million was recorded, compared to a gross loss of approximately HK$1.2 million in the previous year. Profit attributable to owners of the Company amounted to HK$158.6 million, a substantial decline compared to HK$647.4 million for the year ended 31 December 2011, mainly due to a one-off gain of HK$749.3 million recorded a year ago on the disposal of the Group's electricity generation business.

OVERVIEW

Clear diverse performance was seen in the global economy in 2012 despite an overall sluggishness. The United States economy showed strong resilience, with the recovery back on track after a brief downturn having endured the impact of the European debt crisis and the fiscal cliff at home. The European economy deteriorated further and slipped into recession. Japan lost its growth momentum again after a short revival. The emerging market economies also suffered a continual decline over the quarters.

In the PRC, growth rate has moderated on a year-on-year quarterly base throughout 2012, dipping under the 8% line for the first time in more than three years. Moreover, it was a year when macro-control and policy-control reached a stalemate with increasing difficulty in balancing policies. Furthermore, it was a year of both cyclical and structural slowdowns. These dual characteristics amplified the impact of external shocks on the Chinese economy.

OUTLOOK

As we see it, the PRC's economic development in 2013 will depend on two major fundamentals: cyclical recovery and structural slowdown. From a cyclical perspective, the economy will further recover thanks largely to an easing policy, a rebound of the real estate market, a reversion from destocking among manufacturers, and a moderate recovery of the global economy. From a structural point of view, the Chinese economy has experienced a continuous decline in potential growth rate since 2007. This structural slowdown is due mainly to subsiding bonus effect gained from WTO membership, the weak demand of global end users, the changes in the PRC's population structure and job market, as well as the country's rise in production costs and decline in competitiveness.

CHAIRMAN'S STATEMENT

We believe that the PRC's economic development is in a critical transitional stage, and 2013 is the most important year therein. The Group will carefully study the relevant policies and long-term plans of the state and keep a close eye on any major investment and development opportunities that may arise from the transition. We will utilize our strong cash position to capture favourable investment and merger and acquisition opportunities and to diversify our 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.

CHEN Wei
Chairman

Hong Kong, 20 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

High-voltage Porcelain Products – Henan ADD Electric Equipment Co., Ltd. ("Henan ADD")

Henan ADD is principally engaged in the production and sale of porcelain insulators which represent the Group's principal activities in the electricity and power generation business. During the year ended 31 December 2012, affected by falling sales and prices of electrical and energy-related products due to poor market conditions, turnover generated by this continuing business declined by 15.4% to approximately HK$40.4 million. A gross loss of approximately HK$16.8 million was incurred, compared to HK$1.2 million in last year, mainly due to poor market environment; a provision of approximately HK$9.3 million made for inventories; and the continued rise in the costs of raw material and energy which increased the direct costs of materials and fuel consumption.

Henan ADD will continue to renovate and enhance the utility and functionality of its products to keep abreast with the demand of customers. Moreover, it will strive to research and develop new high-tech products with higher quality so as to lay a strong and solid foundation for increasing its competitiveness.

Capital reorganisation of Cordoba Homes Limited ("Cordoba") and Hennabun Capital Group Limited ("Hennabun")

On 16 April 2012, Ideal Principles Limited ("Ideal Principles"), a wholly-owned subsidiary of the Company, received a letter from Cordoba (the "Letter from Cordoba") containing information about the capital reorganisation of the outstanding issued shares of Cordoba (the "Cordoba Reorganisation"). Pursuant to the Letter from Cordoba, the Cordoba Reorganisation was achieved by forming a new holding company, HEC Capital Limited ("HEC Capital"), an unlisted private company incorporated in the Cayman Islands. Cordoba consolidated its issued shares on a ten for one basis and each existing shareholder of Cordoba immediately prior to the Cordoba Reorganisation received one share of HEC Capital ("HEC New Shares") for every ten shares of Cordoba with the same rights and obligations in HEC New shares.

On 17 April 2012, Ideal Principles received a letter from Hennabun Capital Group Limited ("Hennabun") (the "Letter from Hennabun") containing information about the reorganisation of the issued shares of Hennabun (the "Hennabun Reorganisation") together with a reorganisation agreement relating to the exchange of shares of Hennabun with the shares of HEC Capital (the "Reorganisation Agreement"). Pursuant to the Reorganisation Agreement, the Hennabun Reorganisation was achieved by Hennabun issuing a certain number of its new shares to a wholly-owned subsidiary of HEC Capital in exchange for the same number of HEC New Shares. The shares of Hennabun held by Ideal Principles were cancelled and in turn Ideal Principles received the HEC New Shares.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2012, the Group in total owns approximately 9.38% of the issued share capital of HEC Capital. During the year under review, the Group did not receive any dividends or financial contributions from HEC Capital. The principal activities of HEC Capital and its subsidiaries are property investment, investment and trading in securities and money lending.

Disposal of shares in Towngas China Company Limited ("Towngas China")

As at 31 December 2012, the Group beneficially owned 173,411,677 shares in Towngas China, representing approximately 7.05% of the issued share capital of Towngas China. Towngas China is a company incorporated in the Cayman Islands with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). It is principally engaged in the provision of piped gas, construction of gas pipelines, the operation of city gas pipeline network and the sale of gas household appliances.

On 31 August 2012, 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 by shareholders at a special general meeting on 18 September 2012, authorizing the Board to effect disposal(s) from time to time for a period of 12 months from 18 September 2012 of all remaining Towngas China shares 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; and

2) the minimum selling price per Towngas China share shall not be less than HK$4.20.

The Company intends to apply the aggregate remaining proceeds from the disposal mandate and the proceeds from the future disposal towards funding the working capital needs of its existing business and funding any future acquisition or investment as and when suitable opportunities arise.

Disposal of shares in Mascotte Holdings Limited ("Mascotte")

In February and March 2012, Kenson Investment Limited, a wholly-owned subsidiary of the Company, disposed all of its 500,000,000 shares in Mascotte. Net proceeds from the disposal amounted to HK$40 million. The carrying amount of these shares in Mascotte was HK$115 million as at 31 December 2011. Hence the disposal gave rise to a loss of HK$75 million for the year ended 31 December 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

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

On 19 December 2010, Goodunited Holdings Limited ("Goodunited") and Sinolink Electric Power Company Limited ("Sinolink Electric"), being indirect wholly-owned subsidiaries of the Company, entered into an equity transfer agreement with CNOOC Gas & Power Group ("CNOOC Gas"), pursuant to which Goodunited and Sinolink Electric sold their entire equity interests in Fuhuade to CNOOC Gas at a total consideration of RMB1,037,642,000 (equivalent to approximately HK$1,247.2 million) (subject to adjustment).

On 23 February 2011, Fuhuade received an approval notice from the Market Supervision Administration of Shenzhen Municipality in the People's Republic of China ("PRC") on the change of registration and obtained a new business license. Fuhuade is now owned and managed by CNOOC Gas and carrying out normal operations.

Up to 31 December 2012, the supplemental audit on the financial information of Fuhuade for the period from 1 January 2010 to the date of the disposal was not yet finalised and was subjected to mutual agreement with CNOOC Gas in connection with the treatment of certain tax benefit arising from applying concessionary tax rates under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law in past years before the disposal amounting to HK$93,132,000. For the sake of prudence, a provision for doubtful debts of HK$93,132,000 has been made during the year ended 31 December 2012.

As at 31 December 2012, the Group has received RMB680 million from CNOOC Gas. Payment for the balance of the total consideration amount is being arranged.

SUBSEQUENT EVENT

Acquisition

As disclosed in the circular of the Company dated 25 January 2013, the Company entered into an acquisition agreement with Hennabun International Group Limited (the "Vendor") on 4 December 2012, pursuant to which the Group agrees to purchase and the Vendor agrees to sell the entire issued share capital of Enerchine Capital Limited (formerly known as CU Group Investments Limited) ("Enerchine") at a consideration of HK$62 million.

Enerchine is a private company incorporated in the British Virgin Islands with limited liability and is wholly and beneficially owned by the Vendor. Enerchine and its subsidiaries are principally engaged in the provision of type 1, 4, 6 and 9 regulated activities under the Securities and Futures Ordinance ("SFO") as well as investment holding.

MANAGEMENT DISCUSSION AND ANALYSIS

On 18 March 2013 the Company announced that, all the conditions precedent to the acquisition pursuant to the acquisition agreement have been fulfilled or waived and the completion of the acquisition look place on 18 March 2013. Upon completion of the acquisition, Enerchine will become a wholly-owned subsidiary of the Company.

The Board believes that the outlook of the financial services sector is positive and expects that the acquisition will generate steady income for the Group in the medium to long run.

FINANCIAL POSITION

The Group's total borrowings decreased from HK$38.8 million as at 31 December 2011 to HK$37.0 million as at 31 December 2012. Gearing ratio as at 31 December 2012, calculated on the basis of total borrowing over shareholders' equity, was 1% (31 December 2011: 1%).

Total assets pledged in securing the loan and other general banking facilities have a net book value of HK$36.8 million as at 31 December 2012. The bank borrowing of the Group is at floating rates and denominated in RMB. 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 exchange movement 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$1,243.4 million and HK$1.2 million, respectively, as at 31 December 2012 and are mostly denominated in RMB, HK$ and USD.

Capital commitments

As at 31 December 2012, the Group had capital commitments in respect of the acquisition of property, plant and equipment amounting to HK$4.6 million that have not been provided for in the financial statements.

Contingent liabilities

As at 31 December 2012, a financial guarantee of HK$20.0 million has been jointly and severally provided to a bank in respect of a banking facility granted to an investee incorporated in Hong Kong and held by the Group. At 31 December 2012, HK$15.4 million of the bank facility has been utilised. In the opinion of the directors, because the banking facility is secured by assets owned by the investee, whose market value can substantially cover the utilised bank facility amount, the fair value of such financial guarantees is insignificant on initial recognition and no provision has been made at the end of reporting period as the default risk is considered low.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Based on the Board's view of current global capital markets and economic trends, we believe slow to moderate growth will be the "new norm" of the global economy. Comparing 2013 with 2012, not much volatility is expected to affect the growth rate, which is more likely to level or slightly pick up.

With the recent conclusion of the 18th National Congress of the Communist Party of the PRC and the Chinese leadership succession, it is expected that the PRC will continue to deepen its economic reforms. This coupled with an improvement in domestic consumption and exports provide a basis for remaining cautiously optimistic about the PRC's economic prospects in 2013. Nonetheless, the PRC will still face challenges in managing its financial and credit risks and reducing local government debt levels.

We believe a great amount of investment and development opportunities still exist in the PRC market. The Group will continue to improve the management of its existing businesses and projects; and will actively seek new business opportunities so as to enhance the value of the Company to all shareholders.

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 2012 (2011: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group employed approximately 372 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 share option scheme adopted by the Group.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chen Wei, aged 51, was appointed as the chief executive officer and an executive director of the Company since May 2007 and ceased to act as chief executive officer and appointed as the chairman of the board of directors and a member of the remuneration committee of the Company in March 2012. He is currently the executive director of Sinolink Worldwide Holdings Limited ("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 27 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 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. Sam Nickolas David Hing Cheong, aged 31, has been appointed as an executive director, the chief executive officer and a member of the nomination committee of the Company since March 2012. He holds a Bachelor of Laws with Honours and a Bachelor of Arts from the University of Waikato, New Zealand. Mr. Sam is admitted as a Solicitor of the Senior Courts of England and Wales, and is also a Barrister and Solicitor of the High Court of New Zealand. He was formerly an executive director of Radford Capital Investment Limited, a company listed on the Stock Exchange from 30 June 2011 to 15 March 2012, and prior to that appointment was a lawyer at Ogier, a leading international offshore law firm, where he specialized in corporate advisory matters, mergers and acquisitions, and the formation and representation of investment funds. Prior to joining Ogier, Mr. Sam practiced commercial law in New Zealand, and before that worked as an Advisor within the Regulatory Group of Land Information New Zealand, a government department in New Zealand. Save as disclosed above, Mr. Sam has not held any directorship in other listed public companies in the past three years.

Mr. Tang Yui Man Francis, aged 50, has been appointed as 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 was an alternate director to Mr. Ou Yaping, a former executive director of the Company, of Towngas China Company Limited, a company listed on the Stock Exchange, during 2007-2011. Save as disclosed above, Mr. Tang has not held any directorship in other listed public companies in the past three years.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Xiang Ya Bo, aged 56, has been appointed as 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 former chairman of the Board, a former executive director and a substantial shareholder of the Company. He graduated with an engineering degree. Mr. Xiang has over 27 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 and management. Save as disclosed above, Mr. Xiang has not held any directorship in other listed public companies in the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Ping Cheung, aged 61, has been appointed as an independent non-executive director and a member of the audit and remuneration committees and the chairman of the nomination committee of the Company since March 2012. Mr. Lam is a renowned solicitor in Hong Kong. He graduated from the Chinese University of Hong Kong in 1977 and holds a bachelor degree in social science. In 1980, he went to the United Kingdom to pursue his legal studies. He was qualified as a solicitor in Hong Kong in 1985. Mr. Lam was the founder and partner of Messrs. Lam & Co. (formerly known as Messrs. Andrew Lam & Co), a law firm in Hong Kong. Mr. Lam was the chairman and an executive director of Seamless Green China (Holdings) Limited, a company listed on the GEM board of the Stock Exchange during 2010-2011. Mr. Lam was an independent non-executive director of Golden Resources Development International Limited, a company listed on the Stock Exchange during 2011 to 2012. Save as disclosed above, Mr. Lam has not held any directorship in any other listed public companies in the last three years.

Dr. Xiang Bing, aged 51, has been appointed as an independent non-executive director of the Company since December 2008. He is also a member of audit committee, nomination committee and remuneration committee of the Company. Dr. Xiang obtained a Doctoral degree in accounting from the University of Alberta in Canada. 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., and HC International, Inc.; an independent non-executive director and a member of audit committee, nomination committee and remuneration committee of Sinolink; 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

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

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 was an independent non-executive director of E Fund Management Co., Ltd, a company listed on the Shenzhen Stock Exchange, until 29 June 2010 and he was an independent non-executive director and the chairman of remuneration committee of Little Sheep Group Limited, a company listed on the Stock Exchange, during 2008-2012. 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 64, was appointed as an independent non-executive director of the Company in June 2002. He is also the chairman of audit committee and remuneration committee and a member of nomination committee of the Company. Mr. Xin is a postgraduate from the Peking University in the People's Republic of China (the "PRC"). He was a research associate at the Waseda University in Japan, an honorary research associate at the University of British Columbia, Canada and a visiting fellow at the University of Adelaide, Australia from 1984 to 1985. He was appointed as a Justice of the Peace in New South Wales of Australia in 1991. Mr. Xin is a co-author of a book titled "China's iron and steel industry policy: implications for Australia". Mr. Xin is also an independent non-executive director, chairman of audit committee and remuneration committee and a member of nomination committee of Sinolink; an independent non-executive director, member of audit committee and remuneration committee of Central China Real Estate Limited; a non-executive director of Asian Capital Holdings Limited and a non-executive director of China Environmental Technology Holdings Limited, all are listed companies on the Stock Exchange; Mr. Xin is a director of Mori Denki Mfg. Co., Ltd., a public company listed 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. Mr. Xin was a non-executive director of Sino-Tech International Holdings Limited, a company listed on the Stock Exchange, from 2010 to 2012. Mr. Xin was an adviser to the chairman of Guangdong Capital Holdings Limited during the period from 1998 to 2000. Save as disclosed above, Mr. Xin has not held any directorship in other listed public companies in the past three years.

MANAGING DIRECTOR OF INVESTMENT DEPARTMENT

Mr. Alexander Ji, aged 37, joined the Company in February 2008 and was appointed Managing Director of Investment Department of the Company shortly after. He holds a Bachelor of Science Degree in economics and international area studies from University of California, Los Angeles. He has over 11 years of experience in financial planning, investment analysis, project evaluation and strategic planning, as well as project management and investment.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") present their annual report and the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 34 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 39.

No interim dividend (2011: 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 2012 (2011: 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 14 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 23 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 41.

The Company's reserves available for distribution to shareholders at 31 December 2012 amounted to HK$134,855,000 (2011: HK$160,426,000).

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors:

Chen Wei *(Chairman)*	
Sam Nickolas David Hing Cheong *(Chief Executive Officer)*	(appointed on 27 March 2012)
Tang Yui Man Francis	
Xiang Ya Bo	
Ou Yaping *(former Chairman)*	(resigned on 27 March 2012)

Independent Non-executive Directors:

Lam Ping Cheung	(appointed on 27 March 2012)
Xiang Bing	
Xin Luo Lin	
Lu Yungang	(resigned on 27 March 2012)

In accordance with clause 87(2) of the Bye-laws, Mr. Tang Yui Man Francis, Mr. Xiang Ya Bo and Mr. Lam Ping Cheung 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 (the "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.

REPORT OF THE DIRECTORS

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

At 31 December 2012, 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

Name of Directors	Capacity	Interest in Shares 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 31.12.2012
Chen Wei	Beneficial owner	13,162,500	–	–	13,162,500	41,910,000	55,072,500	0.77%
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%

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".

REPORT OF THE DIRECTORS

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 2012 were as follows:

Name of Directors	Date of grant	Exercise period	Exercise price	Number of Shares subject to outstanding options as at 1.1.2012	Granted/ exercise during the year	Number of Shares subject to outstanding options as at 31.12.2012	Percentage of the issued share capital of the Company as at 31.12.2012
			HK$				
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%
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 were granted to or exercised by the Directors of the Company and no options held by the Directors were cancelled under the share option scheme.

4. During the year, 16,171,672 options held by former directors 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.

REPORT OF THE DIRECTORS

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 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

(A) The Company operated a share option scheme adopted by shareholders of the Company on 24 May 2002 (the "2002 Share Option Scheme"), under which the Board may, at its discretion, offer any employee (including any executive director) of the Company or its subsidiaries options to subscribe for Shares subject to the terms and conditions stipulated in the said scheme. The 2002 Share Option Scheme has a life of 10 years and was terminated at the annual general meeting of the Company on 17 May 2012.

The exercise price of the share options will be determined at the highest of (i) the average of closing prices on the Stock Exchange on the five trading days immediately preceding on the date of grant; (ii) the closing price of the Shares on the Stock Exchange on the date of grant; or (iii) the nominal value of the Shares. The share options granted must be taken up within 28 days from the date of grant.

The share options are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years from the date of grant. The minimum period for which a share option must be held before it can be exercised would be determined by the Board of Directors.

No further options shall thereafter be offered under the 2002 Share Option Scheme but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects the provisions of the 2002 Share Option Scheme shall remain in full force and effect.

At 31 December 2012, a total of 172,410,289 Shares (representing approximately 2.398% of the existing issued share capital of the Company as at the date of this Annual Report) maybe issued upon exercise of all options which had been granted and yet to be exercised under the 2002 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
2007 Option	13.11.2007	01.01.2010 – 12.11.2017	0.322
	13.11.2007	01.01.2011 – 12.11.2017	0.322

REPORT OF THE DIRECTORS

The following table discloses movements in the Company's share options granted under the 2002 Share Option Scheme during the year:

	Option types	Outstanding at 1.1.2012	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2012
Category 1: Directors						
Chen Wei	2007 Option	41,910,000	–	–	–	41,910,000
Lu Yungang *(Note 4)*	2004 Option	3,196,336	–	–	(3,196,336)	–
	2007 Option	4,191,000	–	–	(4,191,000)	–
Ou Yaping *(Note 4)*	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	–	–	(16,171,672)	141,164,056
Category 2: Employees						
	2004 Option	512,233	–	–	–	512,233
	2007 Option	30,734,000	–	–	–	30,734,000
Total for employees		31,246,233	–	–	–	31,246,233
All categories		188,581,961	–	–	(16,171,672)	172,410,289

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 2002 Share Option Scheme.

3. During the year, 16,171,672 options were lapsed under the 2002 Share Option Scheme.

4. Mr. Lu Yungang and Mr. Ou Yaping resigned as directors of the Company on 27 March 2012.

REPORT OF THE DIRECTORS

(B) A new share option scheme was adopted by shareholders of the Company on 17 May 2012 ("Date of Adoption") (the "2012 Share Option Scheme"), under which the Board may, of its discretion, offer any Eligible Persons (as hereinafter defined) options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. The 2012 Share Options Scheme has a life of 10 years from the Date of Adoption.

The 2012 Share Option Scheme is a share incentive scheme and is established to enable the Group to, (i) recognise and acknowledge the contributions that Eligible Persons have (or may have) made or may make to the Group (whether directly or indirectly); (ii) attract and retain and appropriately remunerate the best possible quality of employees and other Eligible Persons; (iii) motivate the Eligible Persons to optimise their performance and efficiency for the benefit of the Group; (iv) enhance its business, employee and other relations; and/or (v) retain maximum flexibility as to the range and nature of rewards and incentives which the Company can offer to Eligible Persons. The Eligible Persons include (a) any full time or part time employees of the Group or any directors of the Company or any of its subsidiaries; (b) any customer, supplier or provider of services, landlord or tenant, agent, partner, consultant, or adviser of or a contractor to or person doing business with any member of the Group; (c) trustee of any trust the principal beneficiary of which is, or discretionary trust the discretionary objects of which include, any person referred to (a) or (b) above; (d) a company wholly beneficially owned by any person referred to in (a) or (b) above, and (e) such other persons (or classes of persons) as the Board may in its absolute discretion determine.

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 Persons 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.

The total number of shares in respect of which options may be granted under the 2012 Share Option Scheme is not permitted to exceed 10% of the Shares of the Company in issue on the Date of Adoption ("Scheme Mandate Limit"), without prior approval from the Company's shareholders. During the term of the 2012 Share Option Scheme, 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 2012 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 Eligible Person 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 maybe granted to any Eligible Person (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.

The exercise price for the Shares under the 2012 Share Option Scheme shall be a price determined by the Board at its sole discretion and notified to the Eligible Persons and shall be no less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which an option is granted, (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date on which an option is granted; and (iii) the nominal value of a Share on the date on which an option is granted.

REPORT OF THE DIRECTORS

Consideration of HK$1 is payable by each Elgible Person for the grant of option.

At 31 December 2012, no options were granted since the Date of Adoption and a total of 718,965,566 Shares (representing approximately 10% of the existing share capital of the Company) as at that date of this report maybe issued upon exercise of all options which maybe granted under the 2012 Share Option Scheme.

Additional information in relation to the Company's Share Option Schemes are set out in note 24 to the consolidated financial statements.

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

Save as disclosed, 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 AND CONTINUING CONNECTED TRANSACTIONS

Details of the connected transactions/continuing connected transactions of the Company during the year were as follows:

(a) Connected transactions

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

(b) Continuing connected transactions

On 31 March 2011, 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 2011 to 31 March 2014 (the "Master Agreement"). The annual cap amount for each of the financial years ended/ ending 31 December 2011, 2012, 2013 and 2014 are HK$6,000,000, HK$8,000,000, HK$8,000,000 and HK$2,000,000 respectively. The total amount of the transactions for the year ended 31 December 2012 was HK$2,900,000.

REPORT OF THE DIRECTORS

Sinolink and the Company are owned as to approximately 44.08% and 35.57% 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 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 are more than 0.1% and less than 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 under Chapter 14A of the Listing Rules. The Company had accordingly published an announcement in respect of the above continuing connected transactions on 31 March 2011.

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 confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms or, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules.

REPORT OF THE DIRECTORS

Related Party Transactions

Details of the related party transactions are set out in note 31 to the consolidated financial statements. Those related party transactions did not constitute connected transactions under the Listing Rules.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

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 as at 31 December 2012:

Long positions in Shares

Name of shareholders	Capacity/ Nature of interest	Aggregate interest	Approximate percentage of the issued share capital as at 31.12.2012
Ou Yaping	Beneficial owner and interest of controlled corporations/ Personal interest and corporate interest	2,629,140,978 (Note)	36.56%
Asia Pacific Promotion Limited ("Asia Pacific")	Beneficial owner and interest of controlled corporations/ Beneficial interest and Corporate interest	2,617,180,764 (Note)	36.40%
Pope Asset Management, LLC	Investment Manager/ Other interest	641,879,207	8.93%

Note:

2,617,180,764 Shares represent the aggregate of (i) 2,557,105,618 Shares held by Asia Pacific directly, Mr. Ou is the sole shareholder and director of Asia Pacific; and (ii) 60,075,146 Shares are held by Sinolink Worldwide Holdings Limited ("Sinolink"). Mr. Ou Yaping through Asia Pacific together with his associates hold a total of 44.28% of the existing issued share capital of Sinolink as at 31 December 2012 and is therefore deemed to be interested in all these 2,617,180,764 Shares under the SFO.

Save as disclosed above, as at 31 December 2012, 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.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for about 85% of the Group's turnover. Sales to the largest customer accounted for 36% of the Group's turnover.

The five largest suppliers of the Group in aggregate accounted for about 16% of its purchases for the year. Purchases from the largest supplier accounted for about 7% 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 2012.

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 reviewed by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. The Remuneration Committee will make recommendation to the Board on the emoluments of the directors.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 24 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 (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012) ("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 except for code provision A.6.7 of the Code. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 24 to 36 of this Annual Report.

REPORT OF THE DIRECTORS

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 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 2012 had been audited by the Company's auditor, Messrs. Deloitte Touche Tohmatsu, and had been reviewed by the Audit Committee.

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

PURCHASE, SALE OR REDEMPTION OF 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 2012.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2012 have been audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
Enerchina Holdings Limited

CHEN Wei
Chairman

Hong Kong, 20 March 2013

CORPORATE GOVERNANCE REPORT

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.

STATEMENT OF COMPLIANCE

During the year 2012, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (the "Code") (effective from 1 April 2012) set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except as noted hereunder.

The independent non-executive directors, Dr. Xiang Bing and Mr. Xin Luo Lin, were unable to attend the annual general meeting of the Company held in May 2012 and Dr. Xiang Bing was unable to attend the special general meeting of the Company held in September 2012 as provided for in code provision A.6.7 of the Code as they had personal commitments.

BOARD OF DIRECTORS

Composition

As the date of this report, the Board comprised 7 members (each member of the Board, a "Director"). Mr. Chen Wei acted as the Chairman of the Board, whereas Mr. Sam Nickolas David Hing Cheong acted as Chief Executive Officer of the Company. Other Executive Directors were Mr. Tang Yui Man Francis and Mr. Xiang Ya Bo. The Company had three Independent Non-executive Directors, Mr. Lam Ping Cheung, Dr. Xiang Bing and Mr. Xin Luo Lin, all Independent Non-executive Directors have appropriate professional accounting experience and related financial management expertise and representing at least one-third of the Board. There is no financial, business, family or other material relationship between any members of the Board.

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 9 to 11 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.

CORPORATE GOVERNANCE REPORT

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 of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board) 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 2013 to 31 December 2013, subject to retirement by rotation and re-election in accordance with the Bye-laws.

Responsibilities of the Board and Management

The Board, headed by the Chairman, is responsible for providing high-level guidance and effective oversight of the management of the Company, and 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 and the Bye-laws of the Company.

The Chief Executive Officer and other executive Directors are responsible for day-to-day management of the Company's operations. The executive Directors conduct meetings with the 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 control system and risk management function and the Board plays an important role in the implementation and monitoring of internal control and risk management.

Matters specifically decided by the Board and those reserved for the management, such as daily management administration and operation of the Company, etc., are reviewed by the Board. The management shall report back to the Board. The procedure to enable Directors to seek independent professional advice in appropriate circumstances, at the Company's expenses was established.

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.

CORPORATE GOVERNANCE REPORT

During the year 2012, the Board held 4 regular Board meetings (within the meaning of the Code) at approximately quarterly interval and 6 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. Certain transactions were done by written resolutions and signed by all Directors. The annual general meeting and special general meeting were also held during the year. Details of individual attendance of Directors are set out below:–

	No. of regular Board meetings attended	No. of other Board meetings attended	No. of General meeting attended
Executive Directors			
Chen Wei *(Chairman)*	4	5	2
Sam Nickolas David Hing Cheong *(Chief Executive Officer)*	4	4	2
Xiang Ya Bo	4	4	2
Tang Yui Man Francis	4	6	2
Independent Non-executive Directors			
Lam Ping Cheung	4	2	2
Xiang Bing	3	2	1
Xin Luo Lin	3	2	1
Resigned Directors			
Ou Yaping	1	1	–
Lu Yungang	1	1	–

Directors' Induction and Continuous Professional Development

On appointment to the Board, each newly appointed Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and management to enrol in a wide range of professional development courses and seminars relating to the Listing Rules, companies ordinance/act and corporate governance practices organised by professional bodies, independent auditors and/or chambers in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, Directors are provided with written materials to develop and refresh their professional skills; the Company also organises and arranges seminars on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties. During the year, the Company organised for the Directors and management an in-house workshop on the Listing Rules.

CORPORATE GOVERNANCE REPORT

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the Code on continuous professional development during the year:

	Corporate Governance/Updates on laws, rules and regulations	
	Read materials	**Attend briefings**
Executive Directors		
Chen Wei *(Chairman)*	✓	✓
Sam Nickolas David Hing Cheong *(Chief Executive Officer)*	✓	✓
Xiang Ya Bo	✓	✓
Tang Yui Man Francis	✓	✓
Independent Non-executive Directors		
Lam Ping Cheung	✓	✓
Xiang Bing	✓	✓
Xin Luo Lin	✓	✓

Chairman and Chief Executive Officer

The role of the Chairman, Mr. Chen Wei, remains separate from that of the Chief Executive Officer, Mr. Sam Nickolas David Hing Cheong. 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. During the year, the Chairman had met the Independent Non-Executive Directors without the presence of Executive Directors.

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.

CORPORATE GOVERNANCE REPORT

Responsibilities of Directors

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.

Corporate Governance Functions

The Board is responsible for performing the following corporate governance duties as required under the Code:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

CORPORATE GOVERNANCE REPORT

- to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and

- to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During the year, the Board considered the following corporate governance matters:

- adoption of new corporate governance duties and practices under the Code;

- establishment of the Nomination Committee;

- review the usage of annual caps on continuing connected transactions of the Group;

- review the compliance with the Code; and

- review of the effectiveness of the internal controls and risk management systems of the Company through the Audit Committee.

Board Committees

A number of committees, including the Audit Committee, Nomination 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 comprised two Executive Directors, Mr. Chen Wei and Mr. Xiang Ya Bo, and three Independent Non-executive Directors, Mr. Lam Ping Cheung, Dr. Xiang Bing and Mr. Xin Luo Lin and was 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, considering and making recommendation to the Board on (i) the Company's remuneration policy for Directors and senior management, (ii) remuneration packages for individual Executive Directors and senior management including benefits in kind, pension rights and compensation payments, and (iii) remuneration of Non-executive Directors etc.

CORPORATE GOVERNANCE REPORT

During the year 2012, the Remuneration Committee:

– reviewed the remuneration policy for 2012/2013;

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

– reviewed and approved the services agreement of Executive Director; and

– made recommendation to the Board on the above matters.

The Remuneration Committee held 1 meeting during 2012 with individual attendance as follows and also passed a written resolutions signed by all members:

Members of Remuneration Committee	***No. of meeting(s) attended***
Chen Wei (appointed on 27 March 2012)	0
Xiang Ya Bo	1
Lam Ping Cheung (appointed on 27 March 2012)	0
Xiang Bing	1
Xin Luo Lin *(Chairman of the Remuneration Committee)*	1
Ou Yaping (resigned on 27 March 2012)	1
Lu Yungang (resigned on 27 March 2012)	1

The remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration bands (HK$)	***Number of person(s)***
0 to 1,000,000	3
1,000,001 to 2,000,000	2
2,000,001 to 3,000,000	0
3,000,001 to 4,000,000	0
4,000,001 to 5,000,000	0
5,000,001 to 6,000,000	1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 11 to the financial statements.

CORPORATE GOVERNANCE REPORT

Audit Committee

As at the date of this Annual Report, the Audit Committee comprised three Independent Non-executive Directors, namely Mr. Lam Ping Cheung, Dr. Xiang Bing and Mr. Xin Luo Lin and was 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 control, to protect the interests of the Company's shareholders.

The Audit Committee meets regularly with the Company's external auditor twice a year to discuss audit process and accounting issues, and reviews effectiveness of internal control 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 2012, the Audit Committee:

– reviewed financial statements for the year ended 31 December 2011 and for the six months ended 30 June 2012;

– reviewed of the effectiveness of the internal control system and risk management;

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

– reviewed and approved remuneration of auditor for 2011 and recommended the reappointment of auditor.

As at 31 December 2012, the arrangement for employees of the Company raise concerns about possible improprieties in financial reporting, internal control or other matters is in place.

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 meeting(s) attended***
Lam Ping Cheung (appointed on 27 March 2012)	2
Xiang Bing	3
Xin Luo Lin *(Chairman of the Audit Committee)*	3
Lu Yungang (resigned on 27 March 2012)	1

CORPORATE GOVERNANCE REPORT

Nomination Committee

As at the date of this Annual Report, a Nomination Committee comprises one Executive Director, Mr. Sam Nickolas David Hing Cheong and three Independent Non-executive Directors, Mr. Lam Ping Cheung, Dr. Xiang Bing and Mr. Xin Luo Lin and is chaired by Mr. Lam Ping Cheung.

The terms of reference of the Nomination Committee has complied with the Code which is posted on the website of the Company at www.enerchina.com.hk.

The Nomination Committee's responsibilities include the reviewing and recommending the structure, size and composition of the Board and recommending any change thereon; assessing the independence of independent non-executive directors and recommending the re-election of Directors, etc.

During the year 2012, the Nomination Committee:

– Reviewed of the structure, size and composition (including the skills, knowledge and experience) of the Board;

– Assessed the independence of independent non-executive directors; and

– Reviewed and made recommendations to the Board on re-election of retiring directors at the 2013 annual general meeting.

The Nomination Committee held 1 meeting during the year 2012 with individual attendance as follows:

Members of Nomination Committee	***No. of meeting(s) attended***
Lam Ping Cheung *(Chairman of the Nomination Committee)*	1
Sam Nickolas David Hing Cheong	1
Xiang Bing	1
Xin Luo Lin	1

Appointment and Re-election of Directors

During the year and following the resignation of Mr. Ou Yaping (Executive Director) and Mr. Lu Yungang (Independent Non-Executive Director) on 27th March, 2012, Mr. Sam Nickolas David Hing Cheong and Mr. Lam Ping Cheung were appointed as the Executive Director and Independent Non-Executive Director respectively. In considering the new appointment of these two Directors, the Board assessed the individual candidate and incumbent on criteria such as integrity, independent mindedness, experience, skill and ability to commit time and effort to carry out his duties and responsibilities effectively, etc.

The Nomination Committee nominated and the Board recommended Mr. Tang Yui Man Francis, Mr. Xiang Ya Bo and Mr. Lam Ping Cheung, being Directors longest in office since their last re-election, to retire by rotation, being eligible, will offer themselves for re-election by shareholders of the Company.

CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that in respect of the year ended 31 December 2012, 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 inside 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 2012. Deloitte also reviewed the 2012 unaudited interim financial report of the Company, prepared under HKFRSs.

Fees charged by Deloitte in respect of audit services for the year 2012 amounted to HK$1,080,000. 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 2012	420
– Reviews of the financial information in possible very substantial disposal transaction and very substantial acquisition transaction	1,780
– Other services	65
	2,265

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

The Company places great importance on internal control and risk management. The Board has overall responsibility for the system of internal control 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, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. Based on the results of the review, the system was satisfactory with no major irregularities reported and 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.

COMPANY SECRETARY

The Company has engaged and appointed a representative from an external secretarial services provider as the company secretary of the Company. The primary contact person with the company secretary of the Company is Mr. Tang Yui Man Francis, the Executive Director of the Company. The company secretary of the Company has duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules.

CONSTITUTIONAL DOCUMENTS

There was no change in the memorandum of association and bye-laws of the Company during the year.

A copy of memorandum of association and bye-laws of the Company is posted on the website of the Company at www.enerchina.com.hk.

CORPORATE GOVERNANCE REPORT

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

(a) Procedures for requisitioning a special general meeting

Shareholder(s) of the Company ("Shareholder(s)") holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right to vote at general meetings of the Company may, by written requisition to the Board or the Company Secretary signed and deposited in accordance with the bye-laws of the Company, Bermuda Companies Act 1981, require the Directors to call a special general meeting for the transaction of business specified in the requisition.

(b) Procedures for putting forward proposals at general meetings

Shareholder(s) holding not less than one-twentieth of the paid-up capital of the Company carrying the right to vote at general meetings of the Company or not less than 100 Shareholders may, at their expense, provide a written request to the attention of the Company Secretary signed and deposited in accordance with the Bermuda Companies Act 1981.

(c) Communication with shareholders and investors

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 the 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.

General meetings of the Company provide a direct forum of communication between Shareholders and the Board. Shareholders are welcome to put forward enquiries to the Board or the management thereat and the Chairman of the Board, or in his absence, an Executive Director of the Company, as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the Independent Board Committee, will be commonly be present and available to answer questions and Shareholders may also contact the Company Secretary to direct their written enquires.

The Company is committed to enhancing communications and relationships with its investors. Designated management maintains an open dialogue with institutional investors and analysts to keep them abreast of the Company's developments.

CORPORATE GOVERNANCE REPORT

At the 2012 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 retiring Directors. The Chairman of the Board and certain members of all Committees or their duly appointed delegates attended the 2012 Annual General Meeting and answered questions from the Shareholders.

At the Special General Meeting held on 18 September 2012, a resolution was proposed by the chairman in respect of granting a disposal mandate to the directors of the Company for the disposal of the remaining shares in Towngas China Company Limited. The Chairman of the Board and certain independent non-executive directors attended the meeting and answered the question of the Shareholders.

The Company also maintains a website at www.enerchina.com.hk, where updates on the Company's business developments and operations, financial information and news can always be found.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:–

Address: 28th Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong
Fax: (852) 2851 0970
Email: contact@enerchina.com.hk

In addition, procedure for Shareholders to propose a person for election as a director of the Company is available on the Company's website at www.enerchina.com.hk. The above procedures are subject to the bye-laws of the Company and applicable laws and regulations.

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 profit 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 37 to 38.

INDEPENDENT AUDITOR'S REPORT

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 39 to 98, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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.

INDEPENDENT AUDITOR'S REPORT

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 view 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 2012, and of the Group's profit 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
20 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	**2012** **HK$'000**	2011 HK$'000
Continuing operation			
Turnover	5	**40,360**	47,684
Cost of sales		**(57,159)**	(48,918)
Gross loss		**(16,799)**	(1,234)
Other income and gains	6	**38,946**	33,186
Selling and distribution expenses		**(3,728)**	(4,833)
Administrative expenses		**(48,065)**	(52,714)
Net gains (losses) on investments held for trading		**337,782**	(69,420)
Allowance for doubtful consideration receivable		**(93,132)**	–
Loss on disposal of available-for-sale investments	16	**(48,000)**	–
Impairment loss on available-for-sale investments	16	**(5,000)**	–
Other expenses		**–**	(637)
Finance costs	7	**(3,427)**	(6,304)
Profit (loss) for the year from continuing operation	8	**158,577**	(101,956)
Discontinued operation			
Profit for the year from discontinued operation	9	**–**	749,353
Profit for the year		**158,577**	647,397
Other comprehensive (expense) income for the year			
Exchange differences arising on translation to presentation currency		**(93)**	30,146
Total comprehensive income for the year		**158,484**	677,543
		HK cents	HK cents
Basic and diluted earnings (loss) per share	13		
From continuing and discontinued operations		**2.21**	9.00
From continuing operation		**2.21**	(1.42)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	14	**85,544**	84,446
Prepaid lease payments	15	**17,491**	17,979
Available-for-sale investments	16	**505,000**	583,000
Deposit paid for proposed acquisition	33	**10,000**	–
		618,035	685,425
Current assets			
Inventories	17	**32,589**	40,536
Prepaid lease payments	15	**478**	478
Trade and other receivables, deposits and prepayments	18	**529,151**	548,048
Taxation recoverable		**676**	676
Investments held for trading	19	**1,455,288**	1,165,870
Pledged bank deposits	20	**1,233**	49,322
Bank balances and cash	20	**1,243,437**	1,281,371
		3,262,852	3,086,301
Current liabilities			
Trade and other payables	21	**144,237**	191,706
Taxation payable		**238**	242
Borrowings – due within one year	22	**36,991**	38,841
		181,466	230,789
Net current assets		**3,081,386**	2,855,512
Net assets		**3,699,421**	3,540,937
Capital and reserves			
Share capital	23	**71,897**	71,897
Reserves		**3,627,524**	3,469,040
Total equity		**3,699,421**	3,540,937

The consolidated financial statements on pages 39 to 98 were approved and authorised for issue by the Board of Directors on 20 March 2013 and are signed on its behalf by:

Chen Wei
DIRECTOR

Tang Yui Man Francis
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Capital reserve HK$'000	General reserves HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	(Accumulated losses) retained earnings HK$'000	Total HK$'000
At 1 January 2011	71,897	3,041,421	182,362	81,525	3,637	544	10,481	(528,473)	2,863,394
Exchange differences arising on translation to presentation currency	–	–	30,146	–	–	–	–	–	30,146
Profit for the year	–	–	–	–	–	–	–	647,397	647,397
Total comprehensive income for the year	–	–	30,146	–	–	–	–	647,397	677,543
Exchange reserve realised on disposal of a subsidiary	–	–	(185,549)	–	–	–	–	185,549	–
Share options lapsed	–	–	–	–	–	–	(1,771)	1,771	–
Disposal of a subsidiary	–	–	–	(81,525)	(3,637)	–	–	85,162	–
At 31 December 2011	71,897	3,041,421	26,959	–	–	544	8,710	391,406	3,540,937
Exchange differences arising on translation to presentation currency	–	–	(93)	–	–	–	–	–	(93)
Profit for the year	–	–	–	–	–	–	–	158,577	158,577
Total comprehensive (expense) income for the year	–	–	(93)	–	–	–	–	158,577	158,484
Share options lapsed	–	–	–	–	–	–	(1,163)	1,163	–
At 31 December 2012	**71,897**	**3,041,421**	**26,866**	**–**	**–**	**544**	**7,547**	**551,146**	**3,699,421**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES		
Profit for the year	**158,577**	647,397
Adjustments for:		
Depreciation of property, plant and equipment	**7,787**	13,837
Release of prepaid lease payments	**487**	671
Interest expenses	**3,427**	14,960
Interest income	**(25,813)**	(12,301)
Write-down (reversal of write-down) on inventories	**9,296**	(2,148)
Gain on disposal of property, plant and equipment	**(565)**	(649)
Net (gains) losses on investments held for trading	**(337,782)**	69,420
Allowance for doubtful consideration receivable	**93,132**	–
Loss on disposal of available-for-sale investments	**48,000**	–
Impairment loss on available-for-sale investments	**5,000**	–
Write-off on loans to Shenzhen Fuhuade	**–**	3,529
Dividend income	**(12,021)**	(13,413)
Gain on disposal of subsidiaries	**–**	(763,076)
Operating cash flows before movements in working capital	**(50,475)**	(41,773)
(Increase) decrease in inventories	**(1,383)**	3,259
Decrease (increase) in investments held for trading	**48,364**	(276,940)
Decrease in trade and other receivables, deposits and prepayments	**20,636**	43,877
Decrease in trade and other payables	**(47,241)**	(53,600)
Cash used in operations	**(30,099)**	(325,177)
Interest paid on banks borrowings	**(3,427)**	(14,960)
Income tax paid	**–**	(676)
NET CASH USED IN OPERATING ACTIVITIES	**(33,526)**	(340,813)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTE	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES			
Decrease (increase) in deposits with security brokers		**45,069**	(31,601)
Pledged bank deposits released		**49,322**	35,086
Pledged bank deposits made		**(1,233)**	(49,322)
Deposits paid for proposed acquisitions		**(110,000)**	–
Loan to an independent third party		**(40,000)**	–
Dividend received from available-for-sale investments and investments held for trading		**12,021**	13,413
Interest received		**25,813**	9,528
Proceeds from disposal of property, plant and equipment		**1,455**	1,941
Purchase of available-for-sale investments		**(5,000)**	(305,000)
Proceeds from disposal of available-for-sale investments		**30,000**	–
Purchase of property, plant and equipment		**(9,735)**	(25,911)
Net proceeds from disposal of a subsidiary	27	**–**	786,741
Repayment of loans to Shenzhen Fuhuade	27	**–**	151,811
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(2,288)**	586,686
FINANCING ACTIVITIES			
New bank loans raised		**36,991**	141,572
Repayment of bank loans		**(38,841)**	(113,926)
Repayment of advances from Shenzhen Fuhuade		**–**	(17,074)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(1,850)**	10,572
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(37,664)**	256,445
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,281,371**	1,006,945
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(270)**	17,981
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**1,243,437**	1,281,371

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

The Company is a public limited company incorporated in Bermuda as an exempted company 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 section 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 investment holdings and manufacturing and sales of electrical and energy-related products. It was also engaged in the supply of electricity which was classified as a discontinued operation in prior year (see note 9).

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 HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013
2 Effective for annual periods beginning on or after 1 January 2014
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 July 2012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets (e.g. the Group's unlisted shares in overseas and Hong Kong that are currently classified as available-for-sale investments may have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

HKFRS 13 Fair Value Measurement (Continued)

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of the new standard may not affect certain amounts reported in the consolidated financial statements but will result in more extensive disclosures in the consolidated financial statements.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

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.

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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.

Income and expenses 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Loss of control of a subsidiary

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried 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 Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). 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.

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 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 income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position 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.

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 assets

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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible assets (Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or a cash-generating unit) 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. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are 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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, 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.

Financial assets at fair value through profit or loss

Financial assets at FVTPL are mainly those classified as 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 and is included in the "Net gains (losses) on investments held for trading" line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including deposit paid for proposed acquisition, trade and other receivables, pledged bank deposits and bank balances and cash) are measured 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 FVTPL, loans and receivables or held-to-maturity investments. The Group designated equity securities (e.g. unlisted shares in overseas and Hong Kong) as available-for-sale financial assets on initial recognition of those items.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be 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 affected.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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.

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. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including bank borrowings, trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the date of grant is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options 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 the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 for the year" 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 differences 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 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, 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

Current and deferred tax are recognised in profit or loss.

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 lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

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, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. 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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At 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.

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 are translated into the presentation currency of the Group (i.e. HKD) using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the translation reserve.

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), 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 that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

Impairment of property, plant and equipment and prepaid lease payments

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.

Based on an analysis of recoverable amounts of property, plant and equipment and prepaid lease payments determined based on their fair value less costs to sell, the directors consider no impairment loss is necessary as at the end of reporting period. Where the actual selling prices less costs to sell are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of property, plant and equipment and prepaid lease payments are HK$85,544,000 (2011: HK$84,446,000) and HK$17,969,000 (2011: HK$18,457,000), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Consideration receivable and other taxes payable arising from disposal of a subsidiary

As disclosed in notes 9 and 27, the Group disposed of its 100% equity interest in 中海油深圳電力有限公司 (formerly known as 深圳福華德電力有限公司, Shenzhen Fuhuade Electric Power Co., Ltd.) ("Shenzhen Fuhuade") and the disposal was completed on 22 February 2011, on which date Shenzhen Fuhuade ceased to be a subsidiary of the Company.

The consideration of the disposal of RMB1,037,642,000 (equivalent to approximately HK$1,247,166,000) after deducting estimated other tax expenses of HK$98,000,000 such as withholding tax arising on the disposal was subject to adjustment in accordance with the results of supplemental audit on the financial information of Shenzhen Fuhuade for the period from 1 January 2010 to the date of the disposal (the "Supplemental Audit"). Up to 31 December 2012, the Supplemental Audit was not yet finalised and was subject to negotiation with the Purchaser as defined in note 9, in connection with the potential challenge by tax bureau on certain tax benefit arising from applying concessionary tax rates under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law in past years before the disposal. Due to this reason, a provision for doubtful debts of HK$93,132,000 is made during the year ended 31 December 2012. As a result, consideration receivable outstanding as at 31 December 2012 is carried at an amount of approximately HK$347,857,000 and the directors of the Company expect to receive the amount in 2013 and no further provision is considered necessary.

Where the actual consideration of the disposal is less than expected, a material loss on adjustment of the consideration receivable and a material adjustment on other taxes payable may result. As at 31 December 2012, the carrying amount of consideration receivable and other taxes payable are HK$347,857,000 (2011: HK$440,989,000) and HK$100,538,000 (2011: HK$100,538,000), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. TURNOVER AND SEGMENT INFORMATION

(A) Turnover

Turnover represents revenue arising on sale of electrical and energy-related products, after deducting discounts and related taxes.

(B) Segment information

The Group determines its operating segment and measurement of segment profit based on the internal reports to executive directors, the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment. The Group's continuing operation comprises manufacture and sales of electrical products and it is determined that the Group has only one operating segment in its continuing operation, accordingly no segment information is disclosed.

During the year ended 31 December 2011, the Group disposed of the whole operation in electricity supplies, upon which disposal this operating segment was discontinued and was described in more detail in note 9.

Geographical segments

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

Information about major customers

Revenue from customers contributing over 10% of the total sales of the Group of the corresponding years is as follows:

	2012	2011
	HK$'000	HK$'000
Customer A	**14,474**	18,062
Customer B	**8,709**	16,493
Customer C	**5,298**	2,929

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. OTHER INCOME AND GAINS

Other income mainly comprised of:

	2012 HK$'000	2011 HK$'000
Interest income on:		
– bank deposits	**24,912**	8,929
– others	**901**	3,372
	25,813	12,301
Dividend income:		
– listed	**12,021**	11,227
– unlisted	**–**	2,186
	12,021	13,413
Exchange gain, net	**–**	5,749
Gain on disposal of property, plant and equipment	**565**	649
Others	**547**	1,074
	38,946	33,186

7. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on bank and other borrowings wholly repayable within five years	**3,427**	6,304

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATION

	2012	2011
	HK$'000	HK$'000
Profit (loss) for the year from continuing operation has been arrived at after charging (crediting):		
Auditor's remuneration	**1,080**	1,050
Depreciation of property, plant and equipment	**7,787**	5,299
Cost of inventories recognised as expense	**20,409**	13,760
Exchange loss, net	**1,747**	–
Minimum lease payments under operating leases in respect of rented premises	**2,325**	2,458
Release of prepaid lease payments	**487**	478
Staff costs (including directors' remuneration)	**31,468**	30,182
Write-down (reversal of write-down) on inventories, included in cost of sales	**9,296**	(2,148)

9. DISCONTINUED OPERATION

On 19 December 2010, the Group entered into a conditional equity transfer agreement (the "Agreement") with 中海石油氣電集團有限責任公司 (CNOOC Gas & Power Group) (the "Purchaser") to dispose of its 100% equity interest in Shenzhen Fuhuade which was engaged in electricity supply in the PRC. The disposal was completed on 23 February 2011, on which date Shenzhen Fuhuade received approval notice from the relevant government authority on the change of registration and obtained a new business license. On 22 February 2011, Shenzhen Fuhuade ceased to be a subsidiary of the Company, accordingly the Group's electricity supply operation is treated as a discontinued operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. DISCONTINUED OPERATION (Continued)

The profit from the discontinued operation and the results of the electricity operation which have been included in the consolidated statement of comprehensive income for the year ended 31 December 2011 was analysed as follows:

	HK$'000
Turnover	62,632
Cost of sales	(73,285)
Gross loss	(10,653)
Other income	8,091
Administrative expenses	(2,435)
Other expenses	(70)
Finance costs	(8,656)
Loss of electricity supply operation for the year	(13,723)
Gain on disposal of electricity supply operation	763,076
Profit for the year from the discontinued operation	749,353

Profit for the year ended 31 December 2011 from discontinued operation includes the following:

	HK$'000
Depreciation of property, plant and equipment	8,538
Release of prepaid lease payments	193
Staff costs (including retirement benefit scheme contributions of HK$107,000)	1,095

The net cash flows incurred by Shenzhen Fuhuade was as follows:

	HK$'000
Net cash used in operating activities	(13,777)
Net cash used in investing activities	(19,536)
Net cash from financing activities	22,743
Net cash outflows	(10,570)

The carrying amounts of the assets and liabilities of Shenzhen Fuhuade at the date of disposal were disclosed in note 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 from its continuing operation.

Pursuant to the relevant laws and regulations in the PRC, a PRC subsidiary of the Group is entitled to exemption from PRC enterprise income tax for the first two years commencing from 1 January 2007 and thereafter, the PRC subsidiary would be entitled to a 50% relief from PRC enterprise income tax for the following three years and was taxed at 25% (2011: 12.5%) for the year ended 31 December 2012.

No PRC Enterprise Income Tax has been provided as the Group has no taxable profit for both years from its continuing operation.

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

	2012	2011
	HK$'000	HK$'000
Profit (loss) for the year from continuing operation	**158,577**	(101,956)
Tax charge (credit) at applicable tax rate of 25% (2011: 12.5%)	**39,644**	(12,745)
Tax effect of expenses not deductible for tax purpose	**69,674**	21,909
Tax effect of income not taxable for tax purpose	**(117,009)**	(11,104)
Tax effect of tax losses not recognised	**7,691**	1,940
Taxation for the year	**–**	–

Deferred tax asset has not been recognised in the consolidated financial statements in respect of the estimated tax losses of HK$78,227,000 (2011: HK$47,416,000) available to offset the future assessable profit due to the unpredictability of future profits streams. Included in unrecognised tax losses are losses of HK$30,811,000, HK$12,238,000 and HK$10,898,000 that will expire by 2017, 2016 and 2015, respectively (2011: HK$10,493,000 and HK$12,806,000 that will expire by 2016 and 2015, respectively). Other losses may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. DIRECTORS' AND EMPLOYEES' REMUNERATION

The emoluments paid or payable to each of the 9 (2011: 7) directors were as follows:

	Year ended 31 December 2012									
	Mr. Sam Nickolas David Hing Cheong HK$'000	Mr. Ou Yaping HK$'000	Mr. Xiang Ya Bo HK$'000	Mr. Tang Yui Man, Francis HK$'000	Mr. Chen Wei HK$'000	Mr. Xin Luo Lin HK$'000	Mr. Lu Yungang HK$'000	Mr. Lam Ping Cheung HK$'000	Dr. Xiang Bing HK$'000	Total HK$'000
Fees (Note a)	–	–	–	–	–	250	125	191	250	816
Other emoluments										
– salaries and other benefits (Note b)	760	90	1,560	1,786	200	–	–	–	–	4,396
– contributions to retirement benefit schemes	11	3	278	14	9	–	–	–	–	315
– performance and discretionary bonus (Note c)	–	–	4,000	–	–	–	–	–	–	4,000
Total emoluments	771	93	5,838	1,800	209	250	125	191	250	9,527

	Year ended 31 December 2011							
	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 (Note a)	–	–	–	–	250	250	250	750
Other emoluments								
– salaries and other benefits (Note b)	390	1,560	1,800	307	–	–	–	4,057
– contributions to retirement benefit schemes	12	178	12	9	–	–	–	211
– performance and discretionary bonus (Note c)	500	2,000	800	–	–	–	–	3,300
Total emoluments	902	3,738	2,612	316	250	250	250	8,318

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

Notes:

a. The director's fee of independent non-executive directors is determined by the board of directors with recommendation from 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 authorised by the shareholders of the Company at the annual general meeting.

b. 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.

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

Mr. Sam Nickolas David Hing Cheong is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

The five highest paid individuals of the Group included 3 (2011: 3) directors of the Company. Details of their emoluments are included above.

The emoluments of the remaining 2 (2011: 2) highest paid individuals for the year are set out as follows:

	2012 **HK$'000**	2011 HK$'000
Employees		
Salaries and other benefits	**1,805**	1,927
Contributions to retirement benefit scheme contributions	**43**	41
	1,848	1,968

Their emoluments are within the following band:

	2012 **Number of** **employees**	2011 Number of employee
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
	2	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

During the years ended 31 December 2012 and 2011, 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 both years.

12. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2012 (2011: nil).

13. EARNINGS PER SHARE

From continuing and discontinued operations

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

	2012	2011
	HK$'000	HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings for the year attributable to owners of the Company	**158,577**	647,397

The denominators used are the same as those detailed for both basic and diluted earnings (loss) per share from continuing operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. EARNINGS PER SHARE (Continued)

From continuing operation

The calculation of the basic and diluted earnings (loss) per share from the continuing operation attributable to the owners of the Company is based on the following data:

	2012 HK$'000	2011 HK$'000
Profit (loss) figures are calculated as follow:		
Profit for the year attributable to owners of the Company	**158,577**	647,397
Less: Profit for the year from the discontinued operation	**–**	(749,353)
Profit (loss) for the purposes of calculating basic and diluted earnings (loss) per share from the continuing operation	**158,577**	(101,956)

Number of shares

	2012	2011
Number of ordinary shares in issue during the year	**7,189,655,664**	7,189,655,664

The computation of diluted earnings (loss) per share from continuing operation 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.

From discontinued operation

Basic and diluted earnings per share from the discontinued operation for the year ended 31 December 2011 was HK10.42 cents per share, based on the profit for the period from the discontinued operation of HK$749,353,000 and the denominators detailed above for both basic and diluted loss per share from continuing operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. 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 2011	138,549	648	8,024	1,802,022	4,646	67,547	2,021,436
Currency realignment	4,682	–	199	15,709	572	1,951	23,113
Additions	–	–	8	3,897	–	22,006	25,911
Transfers	21,159	–	–	11,501	–	(32,660)	–
Disposal of a subsidiary	(108,920)	–	(3,824)	(1,790,352)	(975)	(55,728)	(1,959,799)
Disposals	(1,074)	–	–	(100)	(1,672)	–	(2,846)
At 31 December 2011	54,396	648	4,407	42,677	2,571	3,116	107,815
Currency realignment	7	–	41	13	1	–	62
Additions	190	–	6,057	1,783	282	1,423	9,735
Transfers	1,480	–	–	–	–	(1,480)	–
Disposals	–	–	(20)	(1,658)	(548)	–	(2,226)
At 31 December 2012	56,073	648	10,485	42,815	2,306	3,059	115,386
DEPRECIATION							
At 1 January 2011	48,826	648	4,112	491,731	3,769	–	549,086
Currency realignment	701	–	95	4,975	93	–	5,864
Provided for the year	2,579	–	643	9,940	675	–	13,837
Eliminated on disposal of a subsidiary	(46,333)	–	(1,909)	(494,648)	(974)	–	(543,864)
Eliminated on disposals	(87)	–	–	(95)	(1,372)	–	(1,554)
At 31 December 2011	5,686	648	2,941	11,903	2,191	–	23,369
Currency realignment	9	–	2	10	1	–	22
Provided for the year	2,447	–	1,678	3,216	446	–	7,787
Eliminated on disposals	–	–	(18)	(876)	(442)	–	(1,336)
At 31 December 2012	8,142	648	4,603	14,253	2,196	–	29,842
CARRYING VALUES							
At 31 December 2012	47,931	–	5,882	28,562	110	3,059	85,544
At 31 December 2011	48,710	–	1,466	30,774	380	3,116	84,446

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. 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 (medium-term lease)
Leasehold improvement	15% to 20%
Furniture, fixtures and equipment	18% to 20%
Plant and machinery	6% to 10%
Motor vehicles	20%

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

Due to the Group's economic performance were worse than previously expected, the directors conducted an impairment assessment of the Group's leasehold land and buildings in the PRC and plant and machinery, which are used in the Group's continuing operation in manufacture and sales of electrical and energy-related products. The recoverable amounts of the relevant assets have been determined on the basis of their fair values less costs to sell. The fair values of the relevant assets at the end of the reporting period were based on the valuation performed by an independent professional valuer. As the recoverable amounts exceeded the carrying amounts of the relevant assets at 31 December 2012 and 31 December 2011, no impairment loss was recognised accordingly.

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2012	2011
	HK$'000	HK$'000
Leasehold land outside Hong Kong with medium-term leases:		
Non-current portion	**17,491**	17,979
Current portion	**478**	478
	17,969	18,457

Details of impairment assessment of prepaid lease payments are set out in note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

16. AVAILABLE-FOR-SALE INVESTMENTS

	2012	2011
	HK$'000	HK$'000
Unlisted shares in overseas, at cost	**505,000**	578,000
Unlisted shares in Hong Kong, at cost less impairment	**–**	5,000
	505,000	583,000

On 25 January 2011, Ideal Principles Limited ("Ideal Principles"), a wholly owned subsidiary of the Company, entered into a share subscription agreement (the "Cordoba Agreement") with Cordoba Homes Limited ("Cordoba"), an unlisted private 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 and its subsidiaries are principally engaged in property investment, near to cash investments (such as investment in securities trading and money lending business) and investment holding.

On 16 April 2012, Ideal Principles received a letter from Cordoba (the "Letter from Cordoba") containing information about the capital reorganisation of the outstanding issued shares of Cordoba (the "Cordoba Reorganisation"). Pursuant to the Letter from Cordoba, the Cordoba Reorganisation was achieved by forming a new holding company, HEC Capital Limited ("HEC Capital"), an unlisted private company incorporated in the Cayman Islands. Cordoba consolidated its issued shares on a ten for one basis and each existing shareholder of Cordoba immediately prior to the Cordoba Reorganisation received one share of HEC Capital ("HEC New Shares") in exchange for every ten shares of Cordoba with the same rights and obligations in HEC New shares.

On 17 April 2012, Ideal Principles received a letter from Hennabun Capital Group Limited ("Hennabun") (the "Letter from Hennabun") containing information about reorganisation of the issued shares of Hennabun (the "Hennabun Reorganisation") together with a reorganisation agreement relating to the exchange of shares of Hennabun with the shares of HEC Capital (the "Reorganisation Agreement"). The Group subscribed Hennabun at a subscription price of HK$200,000,000 during the year ended 31 December 2010. Pursuant to the Reorganisation Agreement, the Hennabun Reorganisation was achieved by Hennabun issuing certain number of its new shares to a wholly-owned subsidiary of HEC Capital in exchange for the same number of HEC New Shares. The shares of Hennabun held by Ideal Principles were cancelled and in turn Ideal Principles received the HEC New Shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

16. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

As at 31 December 2012, the Group in total owns approximately 9.38% of the issued share capital of HEC Capital with a carrying amount of HK$500,000,000. The principal activities of HEC Capital and its subsidiaries are principally engaged in property investment, near to cash investments (such as investment in securities trading and money lending business) and money lending.

During the year ended 31 December 2012, the Group disposed to an independent third party the Group's entire investment in unlisted equity securities issued by a private entity incorporated overseas with carrying amount of HK$78,000,000 at a cash consideration of HK$30,000,000. A loss on disposal of available-for-sale investments amounting to HK$48,000,000 was charged to profit or loss.

In addition, an impairment loss on available-for-sale investments was recognised for the Group's entire investment in unlisted shares in Hong Kong amounting to HK$5,000,000 during the year ended 31 December 2012 as the operation remains to be loss making since 2011 and the Group considered that the investment cost is not recoverable.

Investments in unlisted securities issued by private entities are held for an identified long term strategic purpose. The available-for-sale investments are measured at cost less impairment at the end of the reporting period because the ranges of reasonable fair value estimates are so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

For the remaining available-for-sale investments of the Group, the management reviews the latest investees' financial positions, observable data such as net asset value per share and consequently considers no objective evidence of impairment was identified at 31 December 2012 and 2011. Accordingly, the directors of the Company consider no further impairment should be recognised.

17. INVENTORIES

	2012	2011
	HK$'000	HK$'000
Raw materials	**2,763**	3,990
Work in progress	**17,419**	19,918
Finished goods	**12,407**	16,628
	32,589	40,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2012 HK$'000	2011 HK$'000
Trade receivables	**19,488**	32,635
Deposits with security brokers	**13,293**	58,362
Consideration receivable for disposal of a subsidiary (note 27)	**347,857**	440,989
Deposit paid for proposed acquisition (note a)	**100,000**	–
Loan to an independent third party (note b)	**40,000**	–
Other receivables, deposits and prepayments	**8,513**	16,062
	529,151	548,048

Notes:

a. The amount represents a deposit of HK$100,000,000 paid by the Group to Ms. Wu Laam Anne in connection with the proposed acquisition of subsidiaries operating the Jingan Hilton Hotel situated in Shanghai, the PRC and holding a parcel of land located at Xiangshan of Ningbo, Zhejiang province, the PRC, on which a tourist development area is expected to be built, for a total consideration of HK$2,550,000,000. Details of the proposed acquisition are set out in the announcement of the Company dated 27 May 2012.

   Further stated in the announcement of the Company dated 31 October 2012, since certain precedent conditions under the sale and purchase agreement (the "Agreement") were not fulfilled or waived on or before 31 October 2012 and completion was unable to take place on or before the agreed timeframe set out under the Agreement, the Agreement was lapsed on 31 October 2012. Pursuant to the Agreement, the deposit paid by the Group of HK$100,000,000 shall be refunded to the Group in full. The amount was fully repaid in January 2013.

b. An amount of HK$40,000,000 was advanced by the Group to an independent third party. The amount was covered by a personal guarantee from another independent third party, interest-bearing at 2% per month and was fully repaid in March 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

The Group allows an average credit period of 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:

	2012	2011
	HK$'000	HK$'000
Within 90 days	**13,971**	14,717
91 – 180 days	**5,517**	17,672
181 – 360 days	**–**	246
	19,488	32,635

Included in the Group's trade debtors are debtors with aggregate carrying amount of HK$5,517,000 (2011: HK$17,918,000) 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. The Group does not hold any collateral over these balances.

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

	2012	2011
	HK$'000	HK$'000
1 – 90 days	**5,517**	17,672
Over 90 days	**–**	246
	5,517	17,918

Included in trade debtors as at 31 December 2011, there were debts discounted with recourse amounting to HK$1,850,000. The Group would need to repay the financial institutions if there are credit losses on the receivables before the end of discounting period, accordingly, the Group continued to recognise the full carrying amount of those debtors and had recognised the cash received as a secured borrowing (see note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

Except for the concentration of credit risk from CNOOC Gas & Power Group in respect of the consideration receivable for disposal of a subsidiary at 31 December 2011, the concentration of credit risk is limited due to the customer base being large and unrelated. The Group does not hold any collateral over the consideration receivable for disposal of a subsidiary, the management believe that CNOOC Gas & Power Group is a reputable PRC stated-owned company with its shares listed on the Main Board of the Stock Exchange and assessed the recoverability of the balance as disclosed in note 4.

19. INVESTMENTS HELD FOR TRADING

	2012	2011
	HK$'000	HK$'000
Investments held for trading, at fair value		
Listed shares in Hong Kong (Note a)	**1,443,526**	1,165,475
Listed shares in elsewhere	**262**	395
Convertible bonds (Note b)	**11,500**	–
	1,455,288	1,165,870

Notes:

a. Included in the listed shares in Hong Kong is an amount of HK$1,104,632,000 (2011: HK$821,046,000) equity interest in Towngas China Company Limited ("Towngas China"), a company incorporated in the Cayman Islands with limited liability with its shares listed on the Main Board of the Stock Exchange. The Group's interest in Towngas China is 7.05% (2011: 7.95%) as of 31 December 2012. The principal activities of Towngas China and its subsidiaries are the provision of piped city-gas, construction of gas pipelines, the operation of city gas pipeline networks and the sale of household gas appliances.

b. The Group invested in unlisted convertible bonds with principal amount of HK$11,500,000 on 3 December 2012 issued by a company listed on the Main Board of the Stock Exchange. The convertible bonds bear zero interest and are due for redemption on 30 November 2013 (the "Maturity Date"). The Group is entitled the right to convert the whole or part of the principal amount of the convertible note into shares at any time and from time to time up to the Maturity Date of the bonds. Any conversion shall be made in amounts of not less than a whole multiple of HK$500,000. The conversion price at which each share shall be issued upon conversion shall be HK$0.125 subject to adjustments mentioned in the terms and condition of the bonds.

   On 1 March 2013, the listed company stated in the announcement that there are proposed variation of the terms and conditions of the convertible bonds which are subject to the approval in the special general meeting going to be held on 25 March 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. INVESTMENTS HELD FOR TRADING (Continued)

Notes: (Continued)

b. (Continued)

The fair value of the convertible bonds as at 31 December 2012 is estimated by an independent professional valuer using valuation techniques based on the discounted cash flow analysis using discount rate from observable current market transactions as input.

20. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The Group's deposits amounting to HK$1,233,000 (2011: HK$49,322,000) have been pledged to secure bank loans due within one year is therefore classified as current assets. The deposits carry interest at prevailing market rate at 3.05% (2011: 3.3%) per annum.

Bank balances carry interest at prevailing market rate ranging from 0.01% to 2.85% (2011: 0.01% to 3.1%) per annum.

21. TRADE AND OTHER PAYABLES

	2012	2011
	HK$'000	HK$'000
Trade payables	**13,426**	63,692
Other taxes arising from disposal of subsidiary (note 27)	**100,538**	100,538
Other payables and accrued charges	**30,273**	27,476
	144,237	191,706

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

	2012	2011
	HK$'000	HK$'000
Within 90 days	**9,661**	6,307
91 – 180 days	**631**	54,840
181 – 360 days	**1,310**	986
Over 360 days	**1,824**	1,559
	13,426	63,692

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For the year ended 31 December 2012

22. BORROWINGS

	2012 HK$'000	2011 HK$'000
Bank loans – secured and due within one year	**36,991**	38,841

The bank loans mainly comprise of:

	Maturity date	Effective interest rate	Carrying amount	
			2012 **HK$'000**	2011 HK$'000
Floating rate bank borrowings:				
Secured RMB bank loans of RMB30,000,000 at 6-month PRC bank interest rate plus certain spread	23 November 2013 (2011: 23 November 2012)	6.3%	**36,991**	36,991
Loans related to bills discounted with recourse	N/A	3.3% to 5.2%	**–**	1,850
Total bank loans			**36,991**	38,841

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 2012, property, plant and equipment with an aggregate carrying amount of HK$17,997,000 (2011: HK$19,345,000), prepaid lease payments of HK$17,584,000 (2011: HK$18,062,000) and bank deposits of HK$1,233,000 (2011: HK$49,322,000), were pledged to banks for the secured bank loans granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2011	7,500,000,000	75,000
Increase on 27 May 2011	4,500,000,000	45,000
At 31 December 2011 and 31 December 2012	12,000,000,000	120,000
Issued and fully paid:		
At 1 January 2011, 31 December 2011 and 31 December 2012	7,189,655,664	71,897

Pursuant to an ordinary resolution by shareholders on 27 May 2011, the authorised share capital of the Company increased from HK$75,000,000 divided into 7,500,000,000 shares of par value HK$0.01 each to HK$120,000,000 divided into 12,000,000,000 shares by the creation of an additional 4,500,000,000 shares each ranking pari passu with the existing shares of the Company.

24. 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.

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24. SHARE OPTION SCHEMES (Continued)

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 2012 and 2011:

	Number of the share options			
Option scheme	**Outstanding at 1.1.2012**	**Lapsed during the year**	**Outstanding at 31.12.2012**	**Exercisable at the end of the year**
2002 Scheme	188,581,961	(16,171,672)	172,410,289	172,410,289
Weighted average exercise price	HK$0.32	HK$0.32	HK$0.32	HK$0.32

	Number of the share options			
Option scheme	**Outstanding at 1.1.2011**	**Lapsed during the year**	**Outstanding at 31.12.2011**	**Exercisable at the end of the year**
2002 Scheme	211,050,379	(22,468,418)	188,581,961	188,581,961
Weighted average exercise price	HK$0.32	HK$0.32	HK$0.32	HK$0.32

Had all the outstanding vested share options been fully exercised on 31 December 2012, the Company would have received cash proceeds of HK$55,171,000 (2011: HK$60,346,000).

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For the year ended 31 December 2012

24. 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
	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.

25. 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 22 (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

26. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
FVTPL		
Held for trading	**1,455,288**	1,165,870
Loans and receivables (including cash and cash equivalents)	**1,780,676**	1,869,644
Available-for-sale investments	**505,000**	583,000
Financial liabilities		
Amortised cost	**181,228**	230,547

Financial risk management objectives and policies

The Group's major financial instruments include deposit paid for proposed acquisition, 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 trade and other receivables, bank balances and trade and other payables are denominated in foreign currencies which expose the Group to foreign currency risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

26. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Foreign currency risk (Continued)

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.

	Assets		Liabilities	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States Dollar ("USD")	**172,237**	200,403	**–**	–
RMB	**347,857**	440,989	**100,538**	100,538

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.

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% (2011: 10%) in the relevant functional currencies against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2011: 10%) change in foreign currency rates.

The sensitivity analysis includes trade and other receivables, bank balances, and trade and other payables where the denomination of the balances is in a currency other than the currency of the respective group entities. A positive number below indicates an increase in profit for the year where the respective functional currencies weaken 5% (2011: 10%) against the relevant foreign currencies. For a 5% (2011: 10%) strengthening of the respective functional currencies against the relevant foreign currencies, there would be an equal but opposite impact on the profit for the year, and the balances below would be negative.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

26. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Foreign currency risk (Continued)

Sensitivity analysis (Continued)

	2012	2011
	HK$'000	HK$'000
Increase in profit for the year		
RMB	**12,366**	34,045
USD	**7,978**	20,040

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 loan to an independent third party (see note 18) and cash flow interest rate risk in relation to variable-rate bank borrowings (see note 22) and variable-rate bank balances and 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 PRC bank interest arising from the Group's RMB borrowings.

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 30 basis point (2011: 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 30 basis points (2011: 70 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2012 would increase/decrease by HK$3,623,000 (2011: increase/decrease by HK$9,043,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and bank balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

26. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities and convertible bonds as well as investments in unlisted equity investment whereby the fair value cannot be measured reliably and thus stated at cost less impairment. 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 the 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 (including investments in listed equity securities and convertible bonds).

If the prices of the respective equity instruments and convertible bonds had been 15% (2011: 15%) higher/lower, profit for the year ended 31 December 2012 would increase/decrease by HK$182,275,000 (2011: profit for the year: increase/decrease by HK$146,026,000) 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 equity price risk as the year end exposure does not reflect the exposure during the year.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

26. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

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.

Except for the concentration of credit risk from CNOOC Gas & Power Group in respect of the consideration receivable for disposal of a subsidiary at 31 December 2011 and 31 December 2012, the concentration of credit risk is limited due to the customer base being large and unrelated. The Group does not hold any collateral over the consideration receivable for disposal of a subsidiary, the management believe that CNOOC Gas & Power Group is a reputable PRC stated-owned company with its shares listed on the main board of the Stock Exchange and do not expect material credit risk from the balance after their assessment as disclosed in note 4.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

26. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

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$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2012 HK$'000
2012						
Non-derivative financial liabilities						
Trade payables	–	6,770	3,135	3,521	13,426	13,426
Other payables and accrued charges	–	130,811	–	–	130,811	130,811
Bank loans – variable rate	6.3	–	–	39,321	39,321	36,991
		137,581	3,135	42,842	183,558	181,228

	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$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
2011						
Non-derivative financial liabilities						
Trade payables	–	8,063	49,943	5,686	63,692	63,692
Other payables and accrued charges	–	128,014	–	–	128,014	128,014
Bank loans						
– variable rate	7.32	–	–	39,669	39,669	36,991
– fixed rate	4.8 and 5.2	–	1,850	–	1,850	1,850
		136,077	51,793	45,355	233,225	230,547

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

26. FINANCIAL INSTRUMENTS (Continued)

Fair value

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

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities 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 consolidated 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

26. FINANCIAL INSTRUMENTS (Continued)

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

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets at FVTPL				
Non-derivative financial assets held for trading				
– listed equity securities	**1,443,788**	**–**	**–**	**1,443,788**
– convertible bonds	**–**	**–**	**11,500**	**11,500**
	1,443,788	**–**	**11,500**	**1,455,288**

	2011			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL				
Non-derivative financial assets held for trading				
– listed equity securities	1,165,870	–	–	1,165,870

There were no transfers between Level 1 and 2.

Reconciliation of Level 3 fair value measurements of convertible bonds:

	HK$'000
At 1 January 2012	–
Purchase during the year	10,000
Total gains in net gains (losses) on investments held for trading	1,500
At 31 December 2012	11,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

27. DISPOSAL OF A SUBSIDIARY

As disclosed in note 9, on 22 February 2011, the Group discontinued its electricity supply operation at the time of disposal of its subsidiary, Shenzhen Fuhuade (the "Disposal"). The net assets of Shenzhen Fuhuade at the date of the Disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	1,415,935
Prepaid lease payments	44,328
Inventories	72,611
Trade and other receivables, deposits and prepayments	78,094
Amount due from the Group (Note a)	17,074
Pledged bank deposits	20,212
Bank balances and cash	30,567
Trade, notes and other payables	(191,906)
Amount due to the Group (Note b)	(152,567)
Taxation payable	(8,684)
Borrowings – amount due within one year	(864,929)
Borrowings – amount due after one year	(74,645)
	386,090
Gain on disposal	763,076
Total consideration after deducting estimated other tax expenses in relation to the Disposal	1,149,166
Satisfied by:	
Cash received during the year	817,308
Cash consideration receivable	429,858
	1,247,166
Net cash inflow arising on the Disposal:	
Total cash consideration received	817,308
Bank balances and cash disposed of	(30,567)
	786,741

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

27. DISPOSAL OF A SUBSIDIARY (Continued)

Notes:

a. The Group settled HK$17,074,000 to Shenzhen Fuhuade in September 2011 in respect of its current account due to Shenzhen Fuhuade which is presented in the financing activities cash flow.

b. The Group provided loans to Shenzhen Fuhuade pursuant to inter-company loan agreements in the principal amount of US$12,000,000 (equivalent to approximately HK$93,000,000) and US$4,500,000 (equivalent to approximately HK$35,263,000), which carried interest at fixed rates of 5% and 3% per annum respectively. The outstanding principal amounts of the two loans together with the accrued interests of HK$152,567,000 as at the date of the Disposal was repayable within 20 days after the date of the Disposal in the event that the shareholding structure of Shenzhen Fuhuade has changed and/or prior to the date of obtaining written consent by Sinolink Electric Power Company Limited ("Sinolink Electric"), which held all the equity interest in Shenzhen Fuhuade up to the date of Disposal and is an indirect wholly owned subsidiary of the Company.

   The outstanding principal amount of the two loans owed to Sinolink Electric together with the interests accrued up to the maturity of the loans amounted to HK$155,340,000 in aggregate. As agreed with Sinolink Electric, the loans were settled at an amount of HK$151,811,000 during the year ended 31 December 2011, and the difference of HK$3,529,000 was recognised in the consolidated statement of comprehensive income during the year ended 31 December 2011 accordingly.

The consideration after deducting estimated other tax expenses such as withholding tax arising on the Disposal was subject to adjustment in accordance with the results of the Supplemental Audit. At 31 December 2011, the Supplemental Audit was not yet completed, accordingly, the gain arising on the Disposal of HK$763,076,000 was determined by consideration of RMB1,037,642,000 (equivalent to approximately HK$1,247,166,000), assuming no adjustment would arise upon completion of the Supplemental Audit, which in the opinion of the directors of the Company represented the most likely outcome at the end of the reporting period, and deducting the net assets of Shenzhen Fuhuade disposed of, and other tax expenses in relation to the Disposal of HK$98,000,000. The deferred consideration would be settled in cash by the Purchaser substantially within 20 days after the results of the Supplemental Audit have been confirmed by the Group and the Purchaser. The directors of the Company expected that such amount would be settled within 1 year from the end of the reporting period.

Cash consideration receivable of HK$429,858,000 and other taxes payable of HK$98,000,000 arising from the Disposal at the date of the Disposal, which were denominated in RMB, were retranslated at the rate prevailing at the end of the reporting period, exchange difference arising on such retranslation of HK$8,593,000 was recognised in profit or loss during the year ended 31 December 2011. No exchange difference arising on such retranslation during the year ended 31 December 2012.

The impact of Shenzhen Fuhuade on the Group's results and cash flows in the year ended 31 December 2011 was disclosed in note 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

27. DISPOSAL OF A SUBSIDIARY (Continued)

Up to 31 December 2012, the Supplemental Audit was not yet finalised and was subject to negotiation with the Purchaser in connection with the potential challenge by tax bureau on certain tax benefit arising from applying concessionary tax rates under the EIT Law and Implementation Regulation of the EIT Law in past years before the Disposal amounting to HK$93,132,000. Due to this reason, a provision for doubtful debts of HK$93,132,000 has been made during the year ended 31 December 2012. According to the progress of negotiation with the Purchaser, the directors of the Company expect the consideration receivable outstanding to be settled within 1 year after the end of the reporting period, and other tax expenses remain payable at the end of the reporting period. Accordingly, the carrying amounts of cash consideration receivable and other taxes payable arising from the Disposal amounted to HK$347,857,000 (note 18) and HK$100,538,000 (note 21), as at 31 December 2012 was classified as a current asset and a current liability, respectively on the consolidated statement of financial position.

28. 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:

	2012 **HK$'000**	2011 HK$'000
Within one year	**2,987**	2,984
In the second to fifth year inclusive	**725**	3,625
	3,712	6,609

Leases are negotiated for terms up to 2 years (2011: 3 years) and rentals are fixed over the respective leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. CAPITAL COMMITMENTS

	2012	2011
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**4,592**	4,849

30. 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.

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 13 to 14 per cent (2011: 11 to 12 per cent) 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 2012, the total expense recognised in the consolidated statement of comprehensive income are HK$2,487,000 (2011: HK$2,205,000).

31. RELATED PARTY TRANSACTIONS

The Group does not have any related party transactions and balances for both years.

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

32. CONTINGENT LIABILITIES

As at 31 December 2012, a financial guarantee of HK$20,000,000 (2011: HK$20,000,000) has been provided to a bank in respect of a banking facility granted to an investee incorporated in Hong Kong held by the Group. At the end of the reporting period, HK$15,428,000 (2011: HK$19,650,000) of the bank facility has been utilised. In the opinion of the directors, the banking facility is secured by assets owned by the investee, which market value can substantially cover the utilised bank facility amount. In addition, pursuant to a deed of undertaking for the banking facility among shareholders of the investee in April 2011, 3 other shareholders of the investee agreed to bear the amount demanded in the event of the claim by the bank. As a result, the fair value of the financial guarantees is insignificant and no provision has been made at the end of the reporting period as the default risk is considered low.

33. EVENT AFTER THE REPORTING PERIOD

On 4 December 2012, the Group entered into an acquisition agreement with Hennabun International Group Limited (the "Vendor"), pursuant to which the Group agrees to purchase and the Vendor agrees to sell the entire issued share capital of Enerchine Capital Limited (formerly known as CU Group Investments Limited), a company incorporated in the British Virgin Islands, being a wholly-owned subsidiary of the Vendor, and its subsidiaries (collectively referred to as the "Enerchine Group") at a cash consideration of approximately HK$62,000,000. The Enerchine Group is principally engaged in the provision of type 1, 4, 6 and 9 regulated activities under the Securities and Future Ordinance as well as investment holding. Up to 31 December 2012, the Group paid a deposit of HK$10,000,000 to the Vendor. The transaction was completed on 18 March 2013.

Details of the proposed acquisition are set out in the announcement of the Company dated 4 December 2012 and 18 March 2013 and also a circular dated 25 January 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2012 and 2011 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
			Directly %	Indirectly %	
Ace Energy Holdings Limited	BVI – Limited liability company	US$1	100	–	Investment holding
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	–	Investment holding
Enerchina Oil and Petrochemical Company Limited	BVI – Limited liability company	US$1	100	–	Procurement of fuel oil
Enerchina Resources Limited	Hong Kong – Limited liability company	HK$2	100	–	Provision of management services
Goodunited Holdings Limited	BVI – Limited liability company	US$1	–	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 selling of electrical and energy–related products
Ideal Principles Limited	BVI – Limited liability company	US$1	–	100	Equity investment principally engaging in financial services and property businesses

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. 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 Directly %	Indirectly %	Principal activities
Kenson Investment Limited	BVI – Limited liability company	US$1	100	–	Investment holding
Million Profits Investments Limited	BVI – Limited liability company	US$1	–	100	Investment holding
Moreluck Enterprises Limited	BVI – Limited liability company	US$1	100	–	Investment holding
Rado International Limited	BVI – Limited liability company	US$1	100	–	Investment holding
Roxy Link Limited	BVI – Limited liability company	US$1	–	100	Investment holding
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	Investment holding
Sinolink Industrial Limited	BVI – Limited liability company	US$50,000	100	–	Investment holding
Supreme All Investments Limited	BVI – Limited liability company	US$1	100	–	Investment holding
威華達信息管理（深圳）有限公司	PRC – Limited liability company	RMB10,000,000	100	–	Investment holding

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2012 HK$'000	2011 HK$'000
Assets		
Investments in subsidiaries	**2,173,798**	2,266,914
Amounts due from subsidiaries	**1,247,676**	1,404,205
Deposit paid for the proposed acquisition	**10,000**	–
Other receivables, deposits and prepayments	**2,055**	21,963
Bank balances and cash	**681,798**	241,196
	4,115,327	3,934,278
Liabilities		
Other payables and accrued charges	**5,986**	1,623
Amounts due to subsidiaries (Note ii)	**1,324,071**	992,360
	1,330,057	993,983
Total assets less total liabilities	**2,785,270**	2,940,295
Capital and reserves		
Share capital	**71,897**	71,897
Reserves (Note i)	**2,713,373**	2,868,398
Total equity	**2,785,270**	2,940,295

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

i Reserves

	Share premium HK$'000	**Contributed surplus** HK$'000	**Share options reserve** HK$'000	**Other reserves** HK$'000	**Total** HK$'000
At 1 January 2011	3,041,421	44,396	10,481	(123,025)	2,973,273
Loss for the year	–	–	–	(104,875)	(104,875)
Share options lapsed	–	–	(1,771)	1,771	–
At 31 December 2011	3,041,421	44,396	8,710	(226,129)	2,868,398
Loss for the year	–	–	–	(155,025)	(155,025)
Share options lapsed	–	–	(1,163)	1,163	–
At 31 December 2012	3,041,421	44,396	7,547	(379,991)	2,713,373

ii During the current financial year, the Company and its PRC subsidiary had certain cross currency funding arrangements with independent third parties amounting to HK$1,361 million in aggregate. The directors of the Company consider that these funding arrangements with the independent third parties have no impact on the Group's financial performance for the year and positions at the end of the reporting period.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012** **HK$'000**
RESULTS					
Turnover	1,016,532	752,297	401,738	110,316	**40,360**
(Loss) profit before taxation	(394,564)	(38,321)	(683,193)	647,397	**158,577**
Taxation	–	–	–	–	**–**
(Loss) profit for the year	(394,564)	(38,321)	(683,193)	647,397	**158,577**
Attributable to:					
Owners of the Company	(394,497)	(38,279)	(683,181)	647,397	**158,577**
Non-controlling interests	(67)	(42)	(12)	–	**–**
(Loss) profit for the year	(394,564)	(38,321)	(683,193)	647,397	**158,577**

FINANCIAL SUMMARY

	As at 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	4,434,454	4,572,799	4,144,951	3,771,726	**3,880,887**
Total liabilities	(960,759)	(1,060,376)	(1,281,557)	(230,789)	**(181,466)**
	3,473,695	3,512,423	2,863,394	3,540,937	**3,699,421**
Equity attributable to owners of the Company	3,473,179	3,511,949	2,863,394	3,540,937	**3,699,421**
Non-controlling interests	516	474	–	–	**–**
	3,473,695	3,512,423	2,863,394	3,540,937	**3,699,421**