Notes to the Financial Statements

For the year ended 31 December 2005

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company, the ultimate holding company is Asia Pacific Promotion Limited, a private limited company incorporated in the British Virgin Island (the "BVI"). 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 parent company of the Group is Sinolink Worldwide Holdings Limited (incorporated in Bermuda).

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

The principal activities of the Group are supply of electricity operation, sale and distribution of liquefied petroleum gas and natural gas ("gas fuel") and construction of gas pipelines. The principal activities of its subsidiaries are set out in note 41.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The application of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

HKAS 17 Leases

Owner-occupied leasehold land

The Group has land use rights in the People's Republic of China other than Hong Kong ("PRC"), with self-constructed buildings erected on them for manufacturing purposes. In previous years, these property interests were included in property, plant and equipment accounted for using cost model.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKAS 17 Leases *(continued)*

Owner-occupied leasehold land (continued)

Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. In the absence of any transitional rules, in HKAS 17, the change in accounting policy has been applied restrospectively. The impact on the adoption of HKAS 17 have been disclosed in note 3.

HKAS 32 Financial Instruments: Disclosure and Presentation

HKAS 39 Financial Instruments: Recognition and Measurement

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Investments in securities

At 31 December 2004, the Group classified and measured its investments in equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in equity securities are classified as "investments in securities" and "other investments" as appropriate. "Investments in securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. From 1 January 2005 onwards, the Group classifies and measures its investments in equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Investments in securities (continued)

The Group has applied the transitional rules in HKAS 39. At 1 January 2005, the Group reclassified its investments in securities with a carrying amount of HK$84,674,000 to available-for-sale investments and reclassified its other investments with a carrying amount of HK$49,450,000 to investments held for trading.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

HKFRS 2 Share-based Payments

In the current year, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Group determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated.

In accordance with the transitional provisions of HKFRS 2, the impact in the change in accounting policy has resulted in a decrease in accumulated profits of HK$1,080,000 at 31 December 2004. For the year ended 31 December 2005, such impact of share-based payments is a charge to administrative expenses of HK$7,017,000.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 3 Business Combinations

In the current year, the Group has adopted HKFRS 3 "Business Combinations" with retrospective approach effective for business combinations for which the agreement date is on or after 1 January 2002. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 January 2002 eliminated the carrying amount of the related accumulated amortisation of HK$18,635,000 with a corresponding decrease in the cost of goodwill (see note 20). The Group has discontinued amortising such goodwill from 1 January 2002 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2002 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged since 1 January 2002. Comparative figures for 2004 has been restated (see note 3 for the financial impact).

In the current year, the Group has also applied HKAS 21 "The Effects of Changes in Foreign Exchange Rates" which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item. In the current year, the Group acquired some foreign operations, and goodwill arose on the acquisition of that foreign operations has been translated at the closing rate at 31 December 2005. There is no material impact on the Group's translation reserve in respect of such transaction.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, interpretations and amendments will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosure[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK (IFRIC) – INT 4	Determining whether an Arrangement Contains a Lease[2]
HK (IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK (IFRIC) – INT 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment[3]
HK (IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) HK$'000	Reclassification HK$'000	Retrospective adjustments HK$'000	As at 31 December 2004 (restated) HK$'000	Prospective adjustments HK$'000	As at 1 January 2005 (restated) HK$'000
Balance sheet items						
Impact of HKAS 17:						
Property, plant and equipment	1,259,934	–	(39,472)	1,220,462	–	1,220,462
Prepaid lease payments	–	–	39,472	39,472	–	39,472
Impact of HKFRS 3:						
Goodwill	212,447	–	11,182	223,629	–	223,629
Impact of HKAS 39:						
Investments in securities	84,674	–	–	84,674	(84,674)	–
Available-for-sale investments	–	–	–	–	84,674	84,674
Other investments	49,450	–	–	49,450	(49,450)	–
Investments held for trading	–	–	–	–	49,450	49,450
Total effect on assets and liabilities	1,606,505	–	11,182	1,617,687	–	1,617,687
Impact of HKFRS 2:						
Share premium	1,237,987	–	164	1,238,151	–	1,238,151
Share option reserve	–	–	683	683	–	683
Retained earning	29,109	–	233	29,342	–	29,342
Impact of HKAS 1:						
Minority interests	–	107,513	–	107,513	–	107,513
Total effects on equity	1,267,096	107,513	1,080	1,375,689	–	1,375,689
Minority interests	107,513	(107,513)	–	–	–	–

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

The cumulative effects of the application of the new HKFRSs as at 31 December 2003 and 1 January 2004 are summarised below:

	31.12.2003 (Originally stated) HK$'000	**Reclassification** HK$'000	**Retrospective adjustments** HK$'000	**31.12.2003 and 1.1.2004** (Restated) HK$'000
Retained earnings	1,667	–	18,636	20,303
Minority interests	–	66,913	–	66,913
Total effects on equity	1,667	66,913	18,636	87,216

The effects of changes in accounting policies on the consolidated income statement are summarised as follows:

	HKAS 32 and HKAS 39 HK$'000	**HKFRS 2** HK$'000	**HKFRS 3** HK$'000	**Total** HK$'000
For the year ended 31 December 2004:				
Increase in staff costs and related expenses	–	(1,080)	–	(1,080)
Decrease in amortisation of goodwill	–	–	11,182	11,182
	–	(1,080)	11,182	10,102
For the year ended 31 December 2005:				
Increase in staff costs and related expenses	–	(7,017)	–	(7,017)
Losses arising from changes in fair value of derivative financial instruments	(191,205)	–	–	(191,205)
Increase in effective interest on the Group's borrowings	(8,256)	–	–	(8,256)
Decrease in amortisation of goodwill	–	–	54,603	54,603
Increase in release of negative goodwill to consolidated income statement	–	–	14,413	14,413
	(199,461)	(7,017)	69,016	(137,462)

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

Land use rights

Payment for obtaining land use right is considered as operating lease payment and charged to income statement over the period of the right using the straight line method.

Goodwill

Goodwill arising on an acquisition of subsidiaries for which the agreement date is before 1 January 2002 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiaries or associates at the date of acquisition.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Goodwill arising on acquisition prior to 1 January 2002

For previously capitalised goodwill arising on acquisitions prior to 1 January 2002, the Group has discontinued amortisation from 1 January 2002 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2002

Goodwill arising on an acquisition of subsidiaries or associates for which the agreement date is on or after 1 January 2002 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiaries or associates at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of subsidiaries is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of associates is included in the cost of the investment of the relevant associates.

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

On subsequent disposal of subsidiaries or associates, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Goodwill arising on acquisition of additional interests in a subsidiary

Goodwill arising on acquisition of additional interests in a subsidiary represents the excess of cost of acquisition over the book value of the net assets of the subsidiary attributable to the additional interests acquired.

Excess of an acquirer's interests in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of subsidiaries and associates for which an agreement date is on or after 1 January 2002 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

As explained in note 3 above, all negative goodwill as at 1 January 2002 has been derecognised with a corresponding adjustment to the Group's retained earnings.

Discount on acquisitions arising on acquisition of additional interests in a subsidiary

Discount on acquisitions arising on acquisition of additional interests in a subsidiary represents the excess of the book value of the net assets of the subsidiary attributable to the additional interests acquired over the cost of acquisition of the additional interests.

Investments in associates

An associate is an equity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

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

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

Revenue recognition

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

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

Revenue from electricity supply operations is recognised when electricity is supplied.

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

Sales of securities are recognised when the sale agreement becomes unconditional.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

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

Depreciation is charged so as to write off the cost or fair value of assets, other than construction in progress, over their estimated useful lives with a residual value of 1%, using the straight-line method.

An items 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 on loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Construction in progress

Construction in progress, which includes all development expenditure and other direct costs attributable to such projects, is stated at cost less any accumulated impairment losses. It is not depreciated until completion of construction. The costs on completed construction works are transferred to other categories of property, plant and equipment.

Exclusive operating right for city pipeline network

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

Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the balance sheet date can be measured reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contracts costs will exceed contract revenue, the expected loss is recognised as an expense immediately.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment (other than goodwill)

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

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

Financial assets

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

4. SIGNIFICANT ACCOUNTING POLICIES *(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. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits and prepayments, pledged bank deposits, bank balances and cash and amounts due from associate and minority shareholders of a subsidiary) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset 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 losses will not reverse in subsequent periods.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities
Financial liabilities including trade and other payables, amounts due to minority shareholders of subsidiaries, bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method.

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

Convertible bonds
Convertible bonds issued by a subsidiary of the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the bonds into equity, is included in equity (convertible bonds reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of a subsidiary of the Company, will remain in convertible bonds reserve until the embedded option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Guaranteed senior notes/exchangeable note
Guaranteed senior notes/exchangeable note are subsequently measured at amortised cost, using the effective interest rate method.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity *(continued)*

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

The Group uses derivative financial instruments (primarily interest rates swap) to hedge its exposure against changes in interest rate. Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Group

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

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

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

Foreign currencies

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are translated into Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (translation reserve). Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

As mentioned in note 2, goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

Retirement benefits scheme

Payments to the Mandatory Provident Fund Scheme/state-managed retirement benefit scheme are charged as an expense as they fall due.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4, management has made various estimates based on past experience, expectations of the future and other information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31 December 2005 was HK$3,044 million. The Group depreciates the property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method, at the rate 3% to 20% per annum, commencing from the date the property, plant and equipment is placed into productive use. The estimated useful life and dates that the Group places the plant and machinery into productive use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the asset; after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and consumables based primarily on the latest invoice prices and current market conditions.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value where the actual cash flows are less than expected, a material impairment loss may arise. As at 31 December 2005, the carrying amount of goodwill is HK$1,926,857,000. Details of the recoverable amount calculation are disclosed in note 20.

Income taxes

As at 31 December 2005, no deferred tax asset was recognised in the Group's balance sheet in relation to the unused tax losses of HK$128,470,000 due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the income statement for the period in which such a recognition takes place.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Share option benefit expenses

The share option benefit expense is subject to the limitations of the Black-Scholes option pricing model and the uncertainty in estimates used by management in the assumptions. The estimates include limited early exercise behavior, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model (see note 32 for the estimates).

The number of options to be vested at the end of vesting period involves management estimation. Should the number of options being vested at the end of vesting period be changed, there would be material changes in the amount of share option benefits recognised in the profit and loss account and share option reserve.

Fair value of derivative financial instruments

The fair value of derivative financial instruments is based on market prices quoted from financial institutions for equivalent instruments at the balance sheet date. The amount is estimated by using a discount cash flow model which incorporate market data, discount rates and other assumptions. Should these assumptions be changed, there would be material changes to the carrying amount of the derivative financial instruments.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, bank deposits and balances, trade and other receivables, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies applied by the Group 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.

Currency risk

The Group collects most of its revenue in Renminbi ("RMB") and most of the expenditures as well as capital expenditures are also denominated in RMB.

RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and supply and demand of RMB. The appreciation or devaluation of RMB against HKD and USD may have positive or negative impact on the results of operations of the Group.

Certain borrowings of the Group are denominated in USD. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Credit risk *(continued)*

The Group's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

The Group has no significant concentration of credit risk except for the sale of electricity supplies to government department in Shenzhen, China. The other exposure spread over a number of counterparties and customers.

Interest rate risk

The Group manages its interest rate exposure based on interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility. The interest rate risk was managed through appropriate derivative financial instruments and a mix of fixed and variable rate debt. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

Price risk

The Group's available-for-sale investments and Investment held for trading are measured at fair value, except for those unlisted equity investments of which fair values cannot be measured reliably, at the balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is organised into three operating divisions – electricity supplies, gas fuel business and others upon the completion of acquisition of certain subsidiaries as set out in note 35. These divisions are the basis on which the Group reports its primary segment information.

In the prior year, the Group was organised into two operating divisions – electricity supplies and others.

Segment information about these businesses is presented below.

	Electricity supplies HK$'000	Gas fuel business HK$'000	Others HK$'000	Consolidated HK$'000
Year ended 31 December 2005				
TURNOVER	1,292,131	1,528,039	–	2,820,170
RESULT				
Segment result	124,918	404,245	(34)	529,129
Other operating income				110,248
Unallocated corporate expenses				(100,230)
Finance costs				(150,225)
Share of results of associates	–	6,421	–	6,421
Changes in fair value of derivative financial instruments	–	(191,205)	–	(191,205)
Gain an disposal of investments				114,471
Profit before taxation				318,609
Income tax expense				(33,828)
Profit for the year				284,781

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

	Electricity supplies HK$'000	Others HK$'000	Consolidated HK$'000
Year ended 31 December 2004			
TURNOVER	846,613	9,818	856,431
RESULT			
Segment result	156,483	4,004	160,487
Other operating income			14,125
Unallocated corporate expenses			(19,133)
Finance costs			(24,548)
Profit before taxation			130,931
Income tax expense			–
Profit for the year			130,931

Balance sheet

	Electricity supplies HK$'000	Gas fuel business HK$'000	Others HK$'000	Consolidated HK$'000
At 31 December 2005				
ASSETS				
Segment assets	2,206,611	6,010,877	144,614	8,362,102
Interest in associates	–	465,734	–	465,734
Unallocated corporate assets				293,511
Consolidated total assets				9,121,347
LIABILITIES				
Segment liabilities	(196,878)	(546,418)	(12,181)	(755,477)
Borrowings	(1,149,206)	(2,074,505)	(61,235)	(3,284,946)
Unallocated corporate liabilities				(323,554)
Consolidated total liabilities				(4,363,977)
OTHER INFORMATION				
Capital additions	214,580	1,801,708	580	2,016,868
Goodwill additions	92,951	1,609,985	6,405	1,709,341
Intangible assets additions	–	9,132	–	9,132
Depreciation and amortisation	94,418	43,654	598	138,670
Release of prepaid lease payments	968	657	–	1,625
Impairment loss on goodwill	–	–	6,405	6,405

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

	Electricity supplies HK$'000	Others HK$'000	Consolidated HK$'000
At 31 December 2004			
ASSETS			
Segment assets	2,112,956	141,871	2,254,827
Unallocated corporate assets			688,793
Consolidated total assets			2,943,620
LIABILITIES			
Segment liabilities	(142,532)	–	(142,532)
Borrowings	(1,305,665)	–	(1,305,665)
Unallocated corporate liabilities			(15,300)
Consolidated total liabilities			(1,463,497)
OTHER INFORMATION			
Capital additions	682,506	2,247	684,753
Depreciation and amortisation	52,106	196	52,302
Release of prepaid lease payments	1,037	–	1,037

Geographical segments

As over 90% of the consolidated turnovers, trading results and assets for the year is derived from or located in the PRC, an analysis of the consolidated turnover, trading results and assets by geographical location is not presented.

Notes to the Financial Statements

For the year ended 31 December 2005

8. OTHER OPERATING INCOME

	2005 HK$'000	2004 HK$'000
Dividend income	5,346	–
Exchange gain, net	19,357	–
Interest income on bank deposits	52,001	6,445
Discounts on acquisition of additional interest of a subsidiary	15,168	–
Unrealised gain on investments held for trading	13,074	–
Unrealised gain on other investments	–	3,986
Unrealised gain on commodity derivatives	–	907
Others	5,302	2,787
	110,248	14,125

9. OTHER OPERATING EXPENSES

	2005 HK$'000	2004 HK$'000
Loss on disposal of property, plant and equipment	2,387	12
Impairment loss of other investments	–	635
Impairment loss on goodwill	6,405	–
Others	5,303	2,456
	14,095	3,103

10. PROFIT BEFORE TAXATION

	2005 **HK$'000**	2004 HK$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible asset (included under administrative expenses)	**400**	–
Auditors' remuneration	**3,154**	529
Depreciation of property, plant and equipment	**138,270**	52,302
Release of prepaid lease payments	**1,625**	1,037
Minimum lease payments under operating leases in respect of rented premises	**8,173**	4,940
Staff costs:		
Retirement benefits scheme contributions	**5,621**	697
Staff costs (including directors' remuneration)	**75,079**	21,451
Total staff costs	**80,700**	22,148
Share of tax of associates (included in share of results of associates)	**1,063**	–
Cost of inventories recognised as an expense	**1,985,381**	585,163

11. DIRECTORS' AND EMPLOYEES' REMUNERATION

The emoluments paid or payable to each of the nine (2004: ten) directors were as follows:

	Year ended 31 December 2005									
	Sun Qiang Chang	**Ou Yaping**	**Xiang Ya Bo**	**Tang Yui Man Francis**	**Leng Xuesong**	**Xu Xinghai**	**Xin Luo Lin**	**Lu Yungang**	**Davin A. MacKenzie**	**Total 2005**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fees	–	–	–	–	–	–	250	250	250	750
Other emoluments										
Salaries and other benefits	–	1,374	3,024	3,609	–	437	–	–	–	8,444
Contributions to retirement benefits schemes	–	19	160	19	–	14	–	–	–	212
Share based payment	–	–	–	–	–	55	–	63	63	181
Total emoluments	–	1,393	3,184	3,628	–	506	250	313	313	9,587

11. DIRECTORS' AND EMPLOYEES' REMUNERATION *(continued)*

Year ended 31 December 2004

	Sun Qiang Chang HK$'000	Ou Yaping HK$'000	Xiang Ya Bo HK$'000	Tang Yui Man Francis HK$'000	Leng Xuesong HK$'000	Xu Xinghai HK$'000	Xin Luo Lin HK$'000	Lu Yungang HK$'000	Davin A. MacKenzie HK$'000	Lu Zhi Fang HK$'000	Total 2004 HK$'000
Fees	–	–	–	–	–	–	150	90	57	112	409
Other emoluments											
Salaries and other benefits	–	890	2,697	1,185	–	664	–	–	–	–	5,436
Contributions to retirement benefits schemes	–	12	134	12	–	13	–	–	–	–	171
Share-based payment	–	–	–	–	–	65	–	74	74	–	213
Total emoluments	–	902	2,831	1,197	–	742	150	164	131	112	6,229

The five individuals with the highest emoluments in the Group included three executive directors and two employees (2004: three executive directors and two employees) of the Group. Details of the remuneration of the employees are set out as follows:

	2005 HK$'000	2004 HK$'000
Employees		
Salaries and other benefits	**3,224**	1,720
Retirement benefits scheme contributions	**40**	72
	3,264	1,792

Their emoluments are within the following band:

	2005 Number of employees	2004 Number of employees
HK$2,000,000 to HK$3,000,000	**1**	–
Nil to HK$1,000,000	**1**	2

During the year ended 31 December 2005 and 2004, no remuneration was 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 waived any emoluments during the year.

12. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	**69,599**	41,961
Loan from a shareholder	**–**	152
	69,599	42,113
Interest on bank borrowings not wholly repayable within five years	**–**	1,557
Interest on convertible bonds	**17,245**	–
Interest on senior notes	**77,223**	–
	164,067	43,670
Net interest receivable on interest rate swaps	**(6,831)**	–
	157,236	43,670
Less: Amounts capitalised	**(7,196)**	(19,122)
	150,040	24,548
Bank charges	**185**	–
	150,225	24,548

Borrowing costs capitalised during the year arising on borrowings are calculated by applying a capitalisation rate of 5.3% (2004: 4.2%) to expenditure on qualifying assets.

Notes to the Financial Statements

For the year ended 31 December 2005

13. GAIN ON DISPOSAL OF INVESTMENTS

During the year, the Group disposed of its 41% equity interests in Xin Hua Control Engineering Company Limited which is classified as available-for-sale investments and certain other investments. The gain on disposal is computed as follows:

	2005 HK$'000
Cash consideration	277,490
Net assets disposal of:	
Investments	159,353
Dividend receivable	3,475
Other receivable	191
	163,019
Gain on disposal	114,471

Included in the cash consideration is the long-term receivable of HK$24,459,000 bearing prevailing market interest rate which will be released to the Group in April 2007. The fair value of the long-term receivable as at 31 December 2005 approximated to the carrying amount.

14. INCOME TAX EXPENSE

	2005 **HK$'000**	2004 HK$'000
The charge comprises:		
PRC Enterprise Income Tax		
– current year	**37,252**	–
– overprovision in prior years	**(3,424)**	–
	33,828	–

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group incurred tax losses in both years.

14. INCOME TAX EXPENSE *(continued)*

Pursuant to relevant laws and regulations in the PRC, certain of the Group's subsidiaries operating in the PRC are entitled to an exemption from PRC Enterprise Income Tax for the first two years commencing from first profit making year of operations and thereafter, the subsidiaries are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The tax rate applicable for all PRC subsidiaries ranges from 7.5% to 33%.

Details of deferred taxation are set out in note 34.

	2005 **HK$'000**	2004 HK$'000
The income tax expense for the year can be reconciled to the profit per consolidated income statement as follows:		
Profit before taxation	**318,609**	130,931
Tax charge at applicable income tax rate of 33% (2004: 33%) (note)	**105,141**	21,145
Tax effect of expenses not deductible for tax purpose	**74,169**	1,956
Tax effect of income that is not taxable in determining taxable profit	**(68,189)**	–
Tax effect of share of results of associates	**(2,119)**	–
Tax losses not recognised	**15,243**	711
Effect of tax exemption granted to a PRC subsidiary	**(29,822)**	(23,640)
Effect of different tax rates of subsidiaries entitled to a 50% reduction in PRC enterprise income tax rates and operating in different provisions	**(57,028)**	–
Utilisation of tax losses previously not recognised	**(135)**	–
Overprovision of taxation in previous years	**(3,424)**	–
Others	**(8)**	(172)
Income tax expense for the year	**33,828**	–

Note: The tax rate of 33% represents PRC Enterprise Income Tax which is applicable to most of the Group's operations in the PRC for both years.

Notes to the Financial Statements

For the year ended 31 December 2005

15. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim paid – HK1.0 cent (2004: nil) per share	**48,376**	–
Special interim paid – HK1.0 cent (2004: nil) per share	**48,376**	–
2004 final paid – HK3.5 cents (2004: nil) per share	**80,183**	–
	176,935	–

The final dividend of HK1.0 cent (2004: HK3.5 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

16. EARNINGS PER SHARE

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

	2005 HK$'000	2004 HK$'000
Earnings		
Earnings for the purposes of earnings per share (profit for the year attributable to equity holders of the Company)	**190,958**	90,331
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**3,915,742,543**	2,309,131,332
Effect of dilutive share options	**38,252,578**	6,049,587
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**3,953,995,121**	2,315,180,919

16. EARNINGS PER SHARE *(continued)*

The following table summarises the impact on basic and diluted earnings per share as a result of the changes in accounting policies:

	Basic earnings per share		Diluted earnings per share	
	2005	2004	**2005**	2004
	HK cents	HK cents	**HK cents**	HK cents
Figures before adjustments	**6.49**	3.47	**6.43**	3.46
Adjustments arising from the changes in accounting policies	**(1.61)**	0.44	**(1.60)**	0.44
As reported/restated	**4.88**	3.91	**4.83**	3.90

Notes to the Financial Statements

For the year ended 31 December 2005

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Gas pipelines HK$'000	Total HK$'000
COST								
At 1 January 2004								
– as originally stated	100,670	–	1,698	517,099	3,353	62,417	–	685,237
– effect on changes in accounting policies	(41,927)	–	–	–	–	–	–	(41,927)
– as restated	58,743	–	1,698	517,099	3,353	62,417	–	643,310
Additions	–	1,031	888	36,787	1,522	644,525	–	684,753
Transfer from construction in progress	27,181	–	–	432,174	–	(459,355)	–	–
Disposal	–	–	(3)	–	(473)	–	–	(476)
At 1 January 2005	85,924	1,031	2,583	986,060	4,402	247,587	–	1,327,587
Acquired on acquisition of subsidiaries	91,950	3,561	7,514	145,517	21,429	31,654	1,012,356	1,313,981
Additions	21,712	21	2,682	65,152	3,544	203,571	320,002	616,684
Disposals	(11,443)	–	(912)	(11,300)	(2,493)	(2,904)	(233)	(29,285)
Reclassification	5,318	(2,879)	(979)	(4,566)	–	–	3,106	–
Transfer	562	–	–	418,660	–	(423,388)	4,166	–
Currency realignment	4,070	73	337	29,636	923	7,349	22,280	64,668
At 31 December 2005	198,093	1,807	11,225	1,629,159	27,805	63,869	1,361,677	3,293,635
DEPRECIATION								
At 1 January 2004								
– as originally restated	6,353	–	403	48,312	1,176	–	–	56,244
– effect of changes in accounting policies	(1,418)	–	–	–	–	–	–	(1,418)
– as restated	4,935	–	403	48,312	1,176	–	–	54,826
Provided for the year	4,488	86	215	46,847	666	–	–	52,302
Eliminated on disposal	–	–	(3)	–	–	–	–	(3)
At 1 January 2005	9,423	86	615	95,159	1,842	–	–	107,125
Provided for the year	5,207	605	1,081	97,612	3,242	–	30,523	138,270
Eliminated on disposal	(14)	–	(375)	(1,652)	(846)	–	(6)	(2,893)
Reclassification	238	(148)	(50)	(620)	–	–	580	–
Currency realignment	493	4	131	4,590	403	–	1,260	6,881
At 31 December 2005	15,347	547	1,402	195,089	4,641	–	32,357	249,383
CARRYING VALUES								
At 31 December 2005	182,746	1,260	9,823	1,434,070	23,164	63,869	1,329,320	3,044,252
At 31 December 2004	76,501	945	1,968	890,901	2,560	247,587	–	1,220,462

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

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	3% to 6%
Leasehold improvement	15% to 20%
Furniture, fixtures and equipment	18% to 20%
Plant and machinery	6% to 10%
Motor vehicles	6% to 20%
Gas pipelines	3%

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

Included in construction in progress is net interest capitalised of approximately HK$30,692,000 (2004: HK$23,496,000).

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2005 **HK$'000**	2004 HK$'000
Leasehold land outside Hong Kong:		
Medium-term lease	**125,782**	39,472
	125,782	39,472
Analysed for reporting purposes as:		
Current portion	**3,694**	1,048
Non-current portion	**122,088**	38,424
	125,782	39,472

Notes to the Financial Statements

For the year ended 31 December 2005

19. INTANGIBLE ASSET

	HK$'000
COST	
At 1 January 2004 and 1 January 2005	–
Acquired on acquisition of subsidiaries	9,132
Currency realignment	260
At 31 December 2005	9,392
AMORTISATION	
At 1 January 2004 and 1 January 2005	–
Provided for the year	400
Currency realignment	23
At 31 December 2005	423
CARRYING VALUES	
At 31 December 2005	8,969
At 31 December 2004	–

The intangible assets represent Group's exclusive operating right for city pipeline network which was purchased from third parties.

20. GOODWILL

	HK$'000
COST	
At 1 January 2004	242,264
Eliminated of accumulated amortisation upon the application of HKFRS 3	(18,635)
At 1 January 2005	223,629
Currency realignment	292
Arising on acquisition of subsidiaries (note 35)	1,586,342
Arising on acquisition of additional interests of subsidiaries	122,999
At 31 December 2005	1,933,262
AMORTISATION	
At 1 January 2004	(18,635)
Eliminated of accumulated amortisation upon the application of HKFRS 3	18,635
At 1 January 2005 and at 31 December 2005	–
IMPAIRMENT	
At 1 January 2004 and 1 January 2005	–
Impairment loss recognised for the year	(6,405)
	(6,405)
CARRYING VALUES	
At 31 December 2005	1,926,857
At 31 December 2004	223,629

The goodwill, which arose from acquisition of subsidiaries is not amortised commencing from 1 January 2002 in accordance with the transactional provision of HKFRS 3.

20. GOODWILL *(continued)*

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

	2005 **HK$'000**	2004 HK$'000
Electricity supplies	**316,580**	223,629
Gas fuel business	**1,610,277**	–
Others	**6,405**	–
	1,933,262	223,629
Impairment loss recognised for the year	**(6,405)**	–
	1,926,857	223,629

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

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next 5 years and extrapolates cash flows for the following 15 years based on an estimated growth rate of 3% – 5%. This rate does not exceed the average long-term growth rate for the relevant markets.

20. GOODWILL *(continued)*

The rate used to discount the forecast cash flows from Fuhuada and Panva Gas is 12%.

At 31 December 2005, the Group recognised an impairment loss of HK$6,405,000 in relation to goodwill arising from acquisition of Beijing Zhonglian Far East Engineering & Project Management Consulting Services Co., Ltd ("Beijing Zhonglian") due to keen competition in the market.

21. INTERESTS IN ASSOCIATES

	2005 **HK$'000**	2004 HK$'000
Share of net assets	**380,817**	–
Goodwill on acquisition of associates	**84,917**	–
	465,734	–

Details of the Group's associates as at 31 December 2005 are as follows:

Name of associate	Place of incorporation and operation	Percentage of equity interest attributable to the Group	Principal activities
Changchun Gas Holdings Limited 長春燃氣控股有限公司	PRC – Sino-foreign equity joint venture	48%	Provision and/or distribution of natural gas, coal gas, LPG, metallurgical Coke and Coke oil
Foshan Panva Gas Co., Ltd. 佛山市燃氣集團有限公司	PRC – Sino-foreign equity joint venture	45%	Provision of LPG, natural gas and related services and gas pipeline construction

21. INTERESTS IN ASSOCIATES *(continued)*

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

	2005
	HK$'000
Total assets	2,040,177
Total liabilities	(1,262,703)
Net assets	777,474
Revenue	1,425,295
Profit for the year	44,139

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

The recoverable amounts are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates of 12% using pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the business. The growth rates of 5% are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecast derived from the most recent financial budgets approved by management for the next 5 years. The directors considered no impairment loss is necessary at 31 December 2005.

22. AVAILABLE-FOR-SALE INVESTMENTS

	2005
	HK$'000
Unlisted shares in the PRC, at cost	189,805
Club debentures, at cost	1,486
	191,291

As at the balance sheet date, investments in unlisted equity securities issued by private entities incorporated in the PRC are measured at cost less impairment because the directors of the Company are of the opinion that their fair values cannot be measured reliably.

In the current year, the Group disposed of certain unlisted shares with carrying amount of HK$163,019,000, which had been carried at cost less impairment before the disposal. A gain on disposal of HK$114,471,000 has been recognised in profit or loss for the year.

23. INVESTMENTS HELD FOR TRADING

	2005
	HK$'000
Investments held for trading, at fair value	
Listed shares in PRC or Hong Kong	9,938
Managed funds	144,561
	154,499

The fair values of the above held for trading investments are determined based on the quoted market bid prices available on the relevant exchanges.

24. INVESTMENTS IN SECURITIES AND OTHER INVESTMENTS

	2004
	HK$'000
Investments securities, at cost:	
Unlisted shares	83,188
Club debentures	1,486
	84,674
Other investments, at market value	
Listed shares in Hong Kong	6,464
Managed funds	42,986
	49,450

Notes to the Financial Statements

For the year ended 31 December 2005

25. INVENTORIES

	2005 HK$'000	2004 HK$'000
Fuel oil	**125,023**	62,367
Gas fuel	**27,852**	–
Consumables	**39,014**	–
	191,889	62,367

26. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

An analysis of the balance of trade and other receivables, deposits and prepayments is as follows:

	2005 HK$'000	2004 HK$'000
Trade receivables	**650,186**	147,420
Other receivables, deposits and prepayments	**757,027**	40,929
	1,407,213	188,349

The fair values of the Group's trade and other receivables at 31 December 2005 and 2004 approximates to the corresponding carrying amounts.

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

	2005 HK$'000	2004 HK$'000
0 – 90 days	**644,463**	147,420
91 – 180 days	**696**	–
181 – 360 days	**1,815**	–
Over 360 days	**3,212**	–
	650,186	147,420

The Group allows an average credit period ranging from 0 – 90 days to its customers.

27. AMOUNT DUE FROM AN ASSOCIATE, AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY, AMOUNT DUE TO A SHAREHOLDER AND LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amounts are unsecured, interest free and are repayable on demand.

The fair values of the amounts at 31 December 2005 and 2004 approximates to the corresponding carrying amounts.

28. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$301,299,000 (2004: HK$59,218,000), the aged analysis of which is as follows:

	2005	2004
	HK$'000	HK$'000
0 – 90 days	**282,518**	59,218
91 – 180 days	**9,797**	–
181 – 360 days	**2,785**	–
Over 360 days	**6,199**	–
	301,299	59,218

The fair values of the Group's trade and other payables determined based on estimated cash flows discounted at prevailing market rate at the balance sheet date approximates to the corresponding carrying amounts.

29. BORROWINGS

	2005	2004
	HK$'000	HK$'000
Borrowings comprise the following:		
Bank loans – secured	**633,860**	337,680
Bank loans – unsecured	**535,509**	967,985
Other loans – unsecured	**79,100**	–
Exchangeable note (Note a)	**61,235**	–
Convertible bonds (Note b)	**362,116**	–
Guaranteed senior notes (Note c)	**1,613,126**	–
	3,284,946	1,305,665

29. BORROWINGS *(continued)*

	2005 HK$'000	2004 HK$'000
The maturity of the above borrowings is as follows:		
On demand or within one year	**602,668**	364,166
More than one year but not exceeding two years	**303,437**	250,447
More than two years but not exceeding five years	**800,030**	650,734
More than five years	**1,578,811**	40,318
	3,284,946	1,305,665
Less: Amount due within one year shown under current liabilities	**(602,668)**	(364,166)
Amount due after one year	**2,682,278**	941,499

Notes:

(a) The exchangeable note with principal of HK$62,500,000 was issued on 30 October 2004 by a subsidiary of the Company. The exchangeable note can be exchanged into shares of Panva Gas Holdings Limited ("Panva Gas") a subsidiary of the Company which is also listed on the Stock Exchange from the date of issue up to the second anniversary of the date of issue on 30 October 2006 at par at the discretion of the note holder. Interest is payable at 2% per annum. The effective interest rate of the exchangeable note is 3.23%.

(b) The convertible bonds of US$50,000,000 were issued on 23 April 2003 by a subsidiary of the Company. The bonds are convertible into shares of Panva Gas on or after 7 June 2003 and up to 9 April 2008. The conversion price at which each share shall be issued upon conversion was HK$3.8043 per share (adjusted to account for the effect of the issue of additional new shares). The outstanding unconverted principal amount of the bonds will be redeemed on 23 April 2008 at 108.119%. Interest of 2% is payable per annum. The effect interest rate of the liability component is 6.48%.

(c) The Group issued US$200,000,000 8.25% guaranteed senior notes due 2011 (the "Guaranteed Senior Notes") on 23 September 2004. The Guaranteed Senior Notes are listed on the Singapore Exchange Securities Trading Limited. The Guaranteed Senior Notes bear interest at 8.25% per annum, payable semi-annually in arrears. At any time prior to 23 September 2007, Panva Gas may redeem up to 35% of the principal amount of the Guaranteed Senior Notes with the net cash proceeds of one or more sales of Panva Gas's shares in an offering at a redemption price of 108.25% of the principal amount of the Guaranteed Senior Notes, plus accrued and unpaid interest, if any, to the redemption date. The effective interest rate of Guaranteed Senior Notes is 8.69%.

(d) The bank and other loans carry fixed and floating interest at the prevailing market rates at a range of 2.0% – 6.4% per annum.

29. BORROWINGS *(continued)*

The fair value of the Group's bank and other borrowings approximates to the corresponding carrying amount calculated by discounting the future cash flows at the prevailing market borrowing rate for similar borrowings at the balance sheet date.

At 31 December 2005, bank deposits of HK$243,242,000 (2004: HK$72,467,000), and other property, plant and equipment with an aggregate carrying amount of HK$852,295,000 (2004: HK$320,594,000) were pledged to banks to secure general banking facilities granted to the Group.

30. DERIVATIVE FINANCIAL INSTRUMENTS

	2005 HK$'000	2004 HK$'000
Fair value hedges – interest rate swaps *(Note a)*	**327,680**	–
Conversion option under exchangeable note *(Note b)*	**5,290**	–
	332,970	–

Notes:

(a) Fair value hedges

The fair value hedge related to the interest rate swaps arrangements entered by the Group to minimise its exposure to fair value changes of its fixed-rate Untied States Dollar bank borrowings by swapping a proportion of the fixed-rate borrowings from fixed rates to floating rates. Major terms of the interest rate swaps are set out below:

Notional amount	**Maturity**	**Swaps**
US$200,000,000	22 September 2011	From 8.25% to MAX (USD LIBOR BBA + 3.72%, 12%)
US$200,000,000	22 September 2011	From (0, 7.12 x Spread rate * + 0.01%) to 8.25%

* Where:

"Spread Rate" means the rate (expressed as a percentage per annum) calculated in accordance with the following formula:

US$ 30 year CMS – US$2 year CMS

"US$ 30 year CMS" means 30-year US$-ISDA-Swap Rate, as such rate appears on the Reuters Screen ISDAFIX1 Page as of or around 11:00 a.m., London time, on the day that is two (2) Banking Days preceding the commencement of the relevant Party A calculation period; and

"US$ 2 year CMS" means 2-year US$-ISDA-Swap Rate, as such rate appears on the Reuters Screen ISDAFIX1 Page as of or around 11:00 a.m., London time, on the day that is two (2) Banking Days preceding the commencement of the relevant Party A calculation period.

The fair value of swaps entered into at 31 December 2005 is estimated at HK$327,680,000. These amounts are based on market prices quoted from financial institutions for equivalent instruments at the balance sheet date. Changes in the fair value of interest rate swaps during the year ended 31 December 2005 of HK$191,205,000 have been recognised to the consolidated income statement.

30. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Notes: (continued)

(b) On 30 October 2004, the exchangeable note of HK$62,500,000 was issued by a subsidiary of the Company. The exchangeable note can be exchanged into shares of Panva Gas, from the date of issue up to the second anniversary of the date of issue on 30 October 2006 at par. The note entitles the holders to convert them into ordinary shares of Panva Gas at the same amount. The fair value of the derivative was calculated using the Black-Scholes pricing model. The derivative is measured at fair value at each balance sheet date.

31. SHARE CAPITAL

	Number of shares		**Share capital**	
	2005	2004	**2005 HK$'000**	2004 HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At beginning of year	**5,000,000,000**	2,500,000,000	**50,000**	25,000
Increase in authorised share capital *(Note a)*	**2,500,000,000**	–	**25,000**	–
Increase in authorised share capital *(Note b)*	**–**	2,500,000,000	**–**	25,000
At end of year	**7,500,000,000**	5,000,000,000	**75,000**	50,000
Issued and fully paid:				
At beginning of year	**2,290,933,904**	762,762,968	**22,909**	7,628
Issue of shares *(Note a)*	**2,540,915,880**	–	**25,409**	–
Open offer *(Note b)*	**–**	1,525,525,936	**–**	15,255
Exercise of share options *(Note 32)*	**5,733,328**	2,645,000	**58**	26
At end of year	**4,837,583,112**	2,290,933,904	**48,376**	22,909

Notes:

(a) Pursuant to a resolution passed at the special general meeting held on 2 June 2005, the share capital of the Company was changed as follows:

- The authorised share capital of the Company was increased from HK$50,000,000 to HK$75,000,000 by the creation of 2,500,000,000 additional ordinary shares of HK$0.01 each.

- The issue of 2,540,915,880 ordinary shares of HK$0.01 each of the Company at HK$0.91 per share for the acquisition of the entire issued share capital of Kenson Investment Limited ("Kenson") and Supreme All Investments Limited ("Supreme All") from Sinolink Worldwide Holdings Limited ("Sinolink"), a substantial shareholder of the Company. Kenson and Supreme All holds 58.45% interest, in aggregate, in Panva Gas.

31. SHARE CAPITAL *(continued)*

Notes: *(continued)*

(b) Pursuant to a resolution passed at the special general meeting held on 29 March 2004, the share capital of the Company was changed as follows:

- The authorised share capital of the Company was hereby increased from HK$25,000,000 to HK$50,000,000 by the creation of 2,500,000,000 additional ordinary shares of HK$0.01 each.

- The issue by way of an open offer of 1,525,525,936 new ordinary shares of HK$0.01 each of the Company at HK$0.4 per share on the basis of two offering shares for every existing share held.

All the shares which were issued during the year rank pari passu with the existing shares in all respects.

32. SHARE OPTION SCHEMES

The Company has a share option scheme (the "1993 Scheme") under which the Board of Directors of the Company may, at its discretion, grant options to any eligible employees of the Group including directors of the Company or its subsidiaries, to subscribe for shares in the share capital of the Company at any time within ten years from 26 July 1993, the date of approval of the 1993 Scheme. The subscription price of the option granted under the 1993 Scheme is the higher of the nominal value of the shares and 80 per cent of the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of the grant and option.

Pursuant to an ordinary resolution passed on the special general meeting held on 24 May 2002, the 1993 Scheme was terminated and a new share option scheme of the Company (the "2002 Scheme") has been approved 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.

Notes to the Financial Statements

For the year ended 31 December 2005

32. 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:

	Number of share options					
Option scheme	**Outstanding at 1.1.2005**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Cancelled during the year**	**Outstanding at 31.12.2005**
1993 Scheme	26,250,000	–	–	(26,250,000)	–	–
2002 Scheme	88,812,000	15,000,000	(5,733,328)	(5,000,000)	(2,100,000)	90,978,672
	115,062,000	15,000,000	(5,733,328)	(31,250,000)	(2,100,000)	90,978,672
Weighted average exercise price	0.47	0.83	0.44	0.53	0.44	0.51

	Number of share options					
Option scheme	**Outstanding at 1.1.2004**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Adjustment**	**Outstanding at 31.12.2004**
1993 Scheme	9,044,000	–	(357,000)	(525,000)	18,088,000	26,250,000
2002 Scheme	–	94,350,000	(2,288,000)	(3,250,000)	–	88,812,000
	9,044,000	94,350,000	(2,645,000)	(3,775,000)	18,088,000	115,062,000
Weighted average exercise price	1.66	0.44	0.43	0.48	N/A	0.47

32. SHARE OPTION SCHEMES *(continued)*

Details of specific categories of options are as follows:

Option scheme	Date of grant	Exercise period	Exercise price HK$	Number of options 2005	2004
2002 Scheme	9.6.2004	9.6.2004 – 8.6.2014	0.44	50,336,000	55,336,000
	9.6.2004	9.6.2005 – 8.6.2014	0.44	5,487,987	11,921,313
	9.6.2004	9.6.2006 – 8.6.2014	0.44	8,933,315	9,633,313
	9.6.2004	9.12.2006 – 8.6.2014	0.44	8,933,370	9,633,374
	20.10.2004	20.10.2005 – 19.10.2015	0.50	2,288,000	2,288,000
	20.12.2005	20.12.2005 – 7.12.2015	0.83	15,000,000	–
1993 Scheme	24.5.2000	24.5.2000 – 23.5.2010	0.55	–	26,250,000
				90,978,672	115,062,000

During the year ended 31 December 2005, the weighted average share price of the Company at the date of exercise of the share options was at a range of HK$0.78 to HK$0.86. During the year ended 31 December 2004, the weighted average share price of the Company at the dates of exercise of the share options was at a range of HK$0.48 to HK$0.58.

Notes to the Financial Statements

For the year ended 31 December 2005

32. SHARE OPTION SCHEMES *(continued)*

During the year ended 31 December 2005, options were granted on 20 December 2005. The estimated fair value of the options granted on the date is HK$0.80. During the year ended 31 December 2004, options were granted on 9 June 2004 and 20 October 2004. The estimated fair value of the options granted on these dates was HK$0.44 and HK$0.47 respectively.

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

	20 December 2005	9 June 2004	20 October 2004
Weighted average share price	HK$0.80	HK$0.44	HK$0.47
Weighted average exercise price	HK$0.83	HK$0.44	HK$0.50
Expected volatility	38%	48%	59%
Expected life	10	10	10
Risk free rate	4.184%	3.68%	2.88%
Expected dividend yield	6.88%	8.14%	8.14%

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

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

The Group recognised total expenses of HK$7,017,000 (2004: HK$1,080,000) related to equity-settled share-based payment transactions during the year.

33. RESERVES

The retained earnings of the Group include approximately HK$6,421,000 (2004: Nil) attributable to the associates.

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

The Company's reserve available for distribution to shareholder at 31 December 2005 amounted to HK$340,800,000 (2004: Nil).

34. DEFERRED TAXATION

No provision for deferred taxation has been made in the consolidated financial statements in respect of the estimated tax losses of approximately HK$128,470,000 (2004: HK$23,469,000) available to offset the future assessable profit due to the unpredictability of future profits streams. Such unrecognised tax losses will expire within five years from the date of origination.

35. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 100% equity interest of Kenson and Supreme All, 80% of the registered capital of Benxi Panva Gas Co., Ltd. ("Benxi Panva") and 70% of the registered capital of Beijing Zhonglian for aggregate cash and share consideration of approximately HK$2,399 million. Kenson and Supreme All together hold 58.45% interests in Panva Gas. The consideration for the acquisition of Kenson and Supreme All was calculated with reference to the market value of the share of Panva Gas. The details of the acquisition of Kenson and Supreme All are set out in the circular of the Company dated 17 May 2005. These transactions have been accounted for by the acquisition method of accounting.

	Kenson, Supreme All and Panva Gas HK$'000	**Benxi Panva** HK$'000	**Beijing Zhonglian** HK$'000
Net assets acquired:			
Property, plant and equipment	1,219,695	93,836	450
Prepaid lease payments	45,509	36,500	–
Available-for-sale investments	215,248	3,977	–
Intangible assets	9,132	–	–
Interests in associates	439,926	–	–
Pledged bank deposits	136,568	–	–
Bank balances and cash	1,344,219	15,341	7,598
Inventories	59,240	1,833	–
Trade and other receivables	721,640	18,448	3,260
Trade and other payables	(278,641)	(18,639)	(3,383)
Tax liabilities	(52,389)	–	–
Borrowings*	(2,034,631)	(68,255)	–
Derivative financial instruments	(122,281)	–	–
Net assets acquired	1,703,235	83,041	7,925
Minority interests	(962,266)	(16,608)	(2,377)
Goodwill arising on acquisition	1,571,265	8,672	6,405
	2,312,234	75,105	11,953
Total consideration:			
Satisfied by cash	–	75,105	11,953
Satisfied by issue of shares	2,312,234	–	–
	2,312,234	75,105	11,953
Net cash (inflow) outflow arising on acquisition			
Cash consideration	–	75,105	11,953
Bank balances and cash acquired	(1,344,219)	(15,341)	(7,598)
Net cash (inflow) outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(1,344,219)	59,764	4,355

35. ACQUISITION OF SUBSIDIARIES *(continued)*

* The acquiree's carrying amount of net assets immediate before acquisition approximates to its fair value except for the fair value adjustment of approximately HK$59 million in relation to guaranteed senior notes issued by Panva Gas.

The goodwill arising on the acquisition of Panva Gas, Benxi Panva and Beijing Zhonglian is attributable to the anticipated profitability of sales and distribution of gas fuel and related products and the gas pipeline construction operations and consulting services respectively.

From 13 June 2005 to 11 July 2005, the Group further acquired 2.12% equity interest of Panva Gas for cash consideration of approximately HK$62 million. The increase in goodwill and decrease in minority interests arising on the further acquisition amounted to approximately HK$30 million and HK$32 million respectively.

On 23 June 2005, the Group further acquired the 30% equity interest of Shenzhen Fuhuade Electric Power Co., Ltd. ("Shenzhen Fuhuade"), for a cash consideration of approximately HK$233,863,000. Upon completion of the equity transfer, Shenzhen Fuhuade become an indirect wholly owned subsidiary of the Group. The increase in goodwill arising from this further acquisition amounted to approximately HK$92.9 million.

Panva Gas contributed HK$1,529 million revenue and HK$134 million to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total Group revenue for the year would have been HK$3,616 million, and profit for the year attributable to equity holders of the Company would have been HK$282 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

36. CONTINGENT LIABILITIES

In August 2003, a supplier filed an application of arbitration against Fuhuade in respect of a claim for extra contract sum due to the additional work involved during the installation of the new generating units. The extra contract sum claimed, together with interest thereon, amounts to approximately HK$28,015,000 (2004: HK$28,015,000). Fuhuade has instructed a firm of lawyers to act on its behalf in respect of the arbitration. In the opinion of the directors, as the arbitration is in progress and the outcome of this cannot be ascertained at this moment, no provision for the amount claimed has been made by the Group as at 31 December 2005 and 2004.

37. OPERATING LEASE ARRANGEMENT

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

	2005	2004
	HK$'000	HK$'000
Within one year	**5,109**	4,940
In the second to fifth years inclusive	**10,251**	4,921
Over five years	**13,424**	–
	28,784	9,861

Leases are negotiated for terms up to 20 years.

38. CAPITAL COMMITMENTS

	2005	2004
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– the acquisition of property, plant and equipment	**–**	191,488
– the unpaid capital contribution to investment projects	**146,533**	–
	146,533	191,488

Notes to the Financial Statements

For the year ended 31 December 2005

39. RETIREMENT BENEFITS SCHEMES

In December 2000, the Group enrolled all non-PRC employees in a Mandatory Provident Fund ("MPF") Scheme. The assets of the MPF Scheme are held separately from those of the Group under the control of trustees. The retirement benefit cost for the MPF charged to the consolidated income statement represents contributions 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 12 to 25 percent of basic salary of its PRC employees and have no further obligation for post-retirement benefits beyond the annual contributions made.

The total expense recognised in the consolidated income statement of HK$5,621,000 (2004: HK$697,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

40. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2005, the Group paid office expenses of HK$1,266,000 (2004: HK$855,000) to Sinolink. The office expense is determined with reference to actual costs incurred.

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

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2005 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 %	
Electricity supplies division					
Ace Energy Holdings Limited	BVI – Limited liability company	US$1	100	–	Investment holding
Beijing Zhonglian Far East Engineering & Project Management Consulting Services Co., Ltd. 北京中聯遠東工程管理咨詢有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	–	70	Management services and technical consultancy
Enerchina Investments Limited	BVI – Limited liability company	US$1	100	–	Investment holding
Enerchina Oil and Petrochemical Company Limited	BVI – Limited liability company	HK$2	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

41. 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
Hanka Limited	Hong Kong – Limited liability company	HK$2	50	50	Holding of club membership
Kenson Investment Limited	BVI – Limited liability company	US$1	100	–	Investment holding
Rado International Limited	BVI – Limited liability company	US$1	100	–	Investment holding
Roxy Link Limited	BVI – Limited liability company	HK$2	–	100	Investment holding
Shenzhen Fuhuade Electric Power Co., Ltd. 深圳福華德電力有限公司	PRC – Sino-foreign equity joint venture	RMB224,500,000	–	100	Electricity supplies
Sinolink Electric Power Company Limited 百仕達電力有限公司	Hong Kong – Limited liability company	HK$2 ordinary shares and $100,000 non-voting deferred shares	–	100	Investment holding
Sinolink Industrial Limited	BVI – Limited liability company	US$50,001	100	–	Investment holding
Supreme All Investments Limited	BVI – Limited liability company	US$1	100	–	Investment holding

41. 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
Gas fuel business division					
Benxi Panva Gas Co., Ltd. 本溪百江燃氣有限公司	PRC – Limited liability company	RMB97,824,900	–	48.46	Provision of natural gas and related services and gas pipeline construction
Cangxi Panva Gas Co., Ltd. 蒼溪百江燃氣有限公司	PRC – Limited liability company	RMB8,000,000	–	60.57	Provision of natural gas and related services and gas pipeline construction
Changsha Pan River Enterprises Co., Ltd. 長沙百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB40,000,000	–	36.34	Wholesaling and retailing of LP Gas
Chenzhou Pan River Gas Industry Co., Ltd. 郴州百江燃氣實業有限公司	PRC – Sino-foreign equity joint venture	RMB9,000,000	–	36.34	Wholesaling and retailing of LP Gas
China Overlink Holdings Co., Limited	BVI – Limited liability company	US$1	–	60.57	Investment holding
China Pan River Group Ltd.	BVI – Limited liability company	US$12,821	–	60.57	Investment holding
Dayi Panva Gas Co., Ltd. 大邑百江燃氣有限公司	PRC – Limited liability company	RMB3,300,000	–	60.57	Provision of natural gas and related services and gas pipeline construction
Jianyang Panva Gas Co., Ltd. 簡陽百江燃氣有限公司	PRC – Limited liability company	RMB1,790,000	–	60.57	Provision of natural gas and related services and gas pipeline construction

41. 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
Jinan Panva Gas Co., Ltd. 濟南百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB100,000,000	–	30.89	Provision of natural gas and related services and gas pipeline construction
Lezhi Panva Gas Co., Ltd. 樂至百江燃氣有限公司	PRC – Limited liability company	RMB6,960,000	–	60.57	Provision of natural gas and related services and gas pipeline construction
Nanjing Panva LPG Company Ltd. 南京百江液化氣有限公司	PRC – Sino-foreign equity joint venture	US$6,000,000	–	33.31	Wholesaling and retailing of LP Gas
Nanjing Panva Pipeline Gas Co., Ltd. 南京百江管道燃氣有限公司	PRC – Sino-foreign equity joint venture	US$1,010,000	–	60.57	Provision of LP Gas and related services and gas pipeline construction
Pan River Enterprises (Changde) Co., Ltd. 常德百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB6,000,000	–	51.48	Wholesaling and retailing of LP Gas
Pan River Enterprises (Hengyang) Co., Ltd. 衡陽百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB6,000,000	–	50.88	Wholesaling and retailing of LP Gas
Pan River Enterprises (Wuhu) Co., Ltd. 蕪湖百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB32,000,000	–	33.31	Wholesaling and retailing of LP Gas
Pan River Enterprises (Yongzhou) Co., Ltd. 永州百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB5,000,000	–	36.34	Wholesaling and retailing of LP Gas

41. 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
Pan River Gas (China Southwest) Co., Ltd. ("Southwest Panva") 百江西南燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB57,500,000	–	30.35	Wholesaling and retailing of LP Gas
Pan River Gas (Zunyi) Co., Ltd. 遵義百江燃氣有限公司	PRC – Limited liability company	RMB4,200,000	–	30.35	Wholesaling and retailing of LP Gas
Panriver Investments Company Limited 百江投資有限公司	PRC – Limited liability company	US$30,000,000	–	60.57	Investment holding
Panva (Chizhou) Gas Co., Ltd. 池州百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB20,000,000	–	36.34	Provision of LP Gas and related services and gas pipeline construction
Panva Gas (Yunnan) Co., Ltd. 雲南百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB58,840,000	–	17.28	Wholesaling and retailing of LP Gas
Panva Gas Holdings Ltd 百江燃氣控股有限公司	Cayman Islands	HK$94,225,089	–	60.57	Investment holding
Pengshan Panva Gas Co., Ltd. 彭山百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB9,000,000	–	42.40	Provision of natural gas and related services and gas pipeline construction
Pengxi Panva Gas Co., Ltd. 蓬溪百江燃氣有限公司	PRC – limited liability company	RMB3,590,000	–	54.51	Provision of natural gas and related services and gas pipeline construction
Pingchang Panva Gas Co., Ltd. 平昌百江燃氣有限公司	PRC – Limited liability company	RMB4,900,000	–	54.51	Provision of natural gas and related services and gas pipeline construction

Notes to the Financial Statements

For the year ended 31 December 2005

41. 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
Sichuan Ziyang Hengyuan Compressed Natural Gas Co., Ltd. 四川省資陽恆源壓縮天然氣有限公司	PRC – Limited liability company	RMB800,000	–	40.34	Provision of compressed natural gas, petroleum and petroleum products to automobiles
Singkong Investments Limited 盛港投資有限公司	Hong Kong – Limited liability company	HK$10,000	–	60.57	Investment holding
Sinolink LPG Investment Limited	BVI – Limited liability company	US$1	–	60.57	Investment holding
Sinolink Power Investment Limited	BVI – Limited liability company	US$1	–	60.57	Investment holding
Weiyuan Panva Gas Co., Ltd. 威遠百江燃氣有限公司	PRC – Limited liability company	RMB5,000,000	–	60.27	Provision of natural gas and related services and gas pipeline construction
Xiang Tan Pan River Energy Industry Co., Ltd. 湘潭百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB10,000,000	–	36.34	Wholesaling and retailing of LP Gas
Yangzhou YPC & Panva Gas Co., Ltd. 揚州揚子石化百江燃氣有限公司	PRC – Limited liability company	RMB10,000,000	– –	16.66	Wholesaling and retailing of LP Gas
Yiyang Pan River Enterprises Co., Ltd. 益陽百江能源實業有限公司	PRC – Sino-foreign equity joint venture	RMB5,000,000	–	36.34	Wholesaling and retailing of LP Gas

41. 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
YPC & Panva Energy Co., Ltd. ("Yangzi Panva") 揚子石化百江能源有限公司	PRC – Sino-foreign equity joint venture	US$7,230,000	–	30.29	Wholesaling and retailing of LP Gas
Yuechi Panva Gas Co., Ltd. 岳池百江燃氣有限公司	PRC – Sino-foreign equity joint venture	RMB8,000,000	–	54.51	Provision of natural gas and related services and gas pipeline construction
Zhongjiang Panva Gas Co., Ltd. 中江百江燃氣有限公司	PRC – Limited liability company	RMB8,000,000	–	60.57	Provision of natural gas and related services and gas pipeline construction
Zhongjian Pingan Petroleum and Gas Limited Liability Company 中江縣平安氣油有限責任公司	PRC – Limited liability company	RMB3,000,000	–	33.31	Provision of compressed natural gas to automobiles
Ziyang Panva Gas Co., Ltd. 資陽百江燃氣有限公司	PRC – Limited liability company	RMB18,890,000	–	54.51	Provision of natural gas and related services and gas pipeline construction

None of the subsidiaries had any loan capital outstanding at the end of the year, or at any time during the year.

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. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 April 2006.